CANADIAN SUPERIOR
ENERGY INC.

2003 ANNUAL REPORT

FORWARD-LOOKING STATEMENTS

This document contains forward-looking information on future production, project start-ups and future capital spending. Actual results could differ materially due to changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors.

Statements contained in this document relating to future results, events and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, among others, those described in the Corporation's annual report on Form 40-F on file with the U.S. Securities and Exchange Commission.

CORPORATE PROFILE

Canadian Superior Energy Inc. is a Calgary, Alberta based energy company engaged in the exploration and production of oil and natural gas, with operations in Western Canada, Offshore Nova Scotia, Canada and Offshore Trinidad and Tobago. The Corporation plans to increase Western Canadian reserves, cash flow and production focusing on the Drumheller area and high impact Western Canadian plays in Alberta, Saskatchewan and British Columbia. These activities will complement the high impact opportunities the Corporation intends to continue to pursue Offshore Nova Scotia, where it is one of the largest offshore acreage holders, and in Trinidad, where it also holds a significant acreage position. The Corporation's strategy is to increase the value of its corporate assets through the drill bit, by strategic acquisitions, and by maintaining high working interests and a strong balance sheet while aggressively developing its newly acquired Trinidad interests and its "World Class" Offshore Nova Scotia assets.

The common shares of Canadian Superior trade on the Toronto Stock Exchange and the American Stock Exchange under the symbol "SNG". As at April 30, 2004, the Corporation had 107.9 million common shares issued and outstanding.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held on June 11th, 2004 at 10:30 am Calgary time, in the Viking Room, Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta T2P 0L5. All shareholders are encouraged to attend. Those unable to do so are requested to sign and return the proxy form mailed with this report.

ABBREVIATIONS

mbbls .... thousands of barrels
mmcf........ million cubic feet
mmcf/d..... million cubic feet per day
NGLs......... natural gas liquids, consisting of any one or more propane, butane or condensate.

bcf .... billion cubic feet
boe.......... barrels of oil equivalent
boe/d....... barrels of oil equivalent per day
bbls .... barrels
bbls/d ...... barrels per day

CONVERSION

All calculations converting natural gas to crude oil equivalent have been made using a ratio of six mcf of natural gas to one barrel of crude oil equivalent.

CONTENTS

Cover:
Rowan Gorilla V on site drilling for Canadian Superior, Offshore Nova Scotia near Sable Island.
Photograph by Lowell Georgia

December 31	2003	2002
Financial ($000's except per share amounts)		
Gross Production Revenue	**$31,618**	$7,741
Cash Flow from Operations	**$13,347**	$799
Per Share	**$0.16**	$0.01
Net Earnings (loss)	**$(312)**	$(28,173)
Per Share	**$(0.00)**	$(0.51)
Capital Expenditures	**$83,995**	$55,025
Nova Scotia Offshore Term Deposits	**$13,839**	$12,032
Net Debt	**3,744**	5,484
Shares Outstanding at Year-end	**96,101**	65,032
Operating		
Average Production		
Natural Gas (mcf/d)	**10,210**	4,725
Oil & NGLs (bbls/d)	**583**	59
Barrels of Oil Equivalent per day	**2,285**	846
Average Selling Price		
Oil & NGLs ($/bbl)	**$33.03**	$35.69
Natural Gas ($/mcf)	**$6.60**	$4.04
Reserves (Gross)*		
Total Proven		
Natural Gas (mmcf)	**17,477**	9,043
Oil & NGLs (mbbl)	**1,218**	139
Barrels of Oil Equivalent (mboe)	**4,131**	1,646
Total Proven and Probable		
Natural Gas (mmcf)	**24,690**	24,790
Oil & NGLs (mbbl)	**2,044**	2,686
Barrels of Oil Equivalent (mboe)	**6,159**	6,818
Net Undeveloped Land (acres)		
Offshore Nova Scotia *	**1,293,946**	923,065
Western Canada **	**147,533**	85,518
Wells Drilled		
Gross	**17.0**	17.0
Net	**15.1**	16.5

* *Includes deep rights on "Marquis" lands*

** *December 31, 2002 values do not include the Drumheller asset aquisition which closed on March 20, 2003*

"High Impact". These two words capture the spirit of Canadian Superior's vision for development of significant value in holdings Offshore Nova Scotia, Offshore Trinidad and in Western Canada. 2003 was a busy year marked by the achievement of a series of important milestones. Offshore Nova Scotia, Canadian Superior (the "Company" or the "Corporation"), along with our joint venture partner El Paso Oil and Gas Canada Inc. ("El Paso"), planned for and commenced drilling of the first "Mariner Project" exploration well directly offsetting ExxonMobil's Venture natural gas field. Spudding of this well occurred on November 20, 2003. This well was drilling less than two years after obtaining the "Mariner" licence, a significant achievement that is a credit to the experienced Canadian Superior planning and technical teams. We also successfully acquired two new offshore exploration licenses, adding 370,881 acres of prime exploration territory, increasing our Offshore Nova Scotia holdings to 1,293,946 acres in six exploration licences. In Trinidad, we established a significant joint venture with the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin") encompassing attractive shallow offshore lands off the East Coast of Trinidad. We plan to increase our activities and our presence in Trinidad during 2004. Our existing Trinidad joint venture lands are on-trend with the large recently discovered BHP Billiton/TotalFinaElf/Talisman Energy Angostura and Aventura Carapal Ridge oil and gas fields and represents a new "World Class" opportunity for Canadian Superior. In Western Canada we added significant core production assets with the March 20, 2003 acquisition of El Paso's Drumheller area assets for approximately $65 million ($53.5 million net of production credits from October 1, 2002 to closing and other closing adjustments). This was one of the better acquisitions in Western Canada in 2003, with a purchase price equating to $20,576 per flowing boe/d, compared to recent production asset transaction prices of as much as $50,000 per flowing boe/d (Oil and Gas Investor, April 2004). The Drumheller area acquisition added significant new production and provided valuable additions to our land inventory that contain a good balance of identified conventional exploration and development targets.

Highlights of 2003 include:

- Revenues of $31.6 million, up 308% compared to 2002.
- Cash flow from operations of $13.3 million, up 1,570% compared to 2002.
- Record average production of 2,285 boe/d, up 170% compared to 2002.
- Acquisition of a significant new core area at Drumheller, Alberta for $65 million ($53.5 million net of adjustments).
- $84 million in capital expenditures with $71.6 directed to Western Canadian assets, $7.8 directed to Offshore Nova Scotia and Trinidad activities and $4.6 million to other expenditures.
- Secured agreement from El Paso for a significant farm-in on our "Mariner Project" lands. This agreement follows up on our 2002 "Marquis" project with El Paso and allows El Paso, upon satisfaction of all conditions, to earn a 50% working interest in our "Mariner" lands in return for coverage of two-thirds of the cost of the first "Mariner Project" exploration well.
- Secured a significant Trinidad joint venture focusing on attractive shallow offshore lands on-trend with recently discovered large oil and gas fields.
- Planned and commenced drilling of our second Offshore Nova Scotia exploration well, Canadian Superior El Paso "Mariner" I-85 well, located on our "Mariner Project" lands.
- Drilled sixteen Western Canadian exploration and development wells with a 94% success rate.
- In excess of $79 million in new equity financings completed in 2003 to support aggressive acquisition and drilling activities.
- Active community involvement: education, training and oil and gas research and development in Nova Scotia; cancer research in Alberta; and major rural sponsorship of various projects including the Western Canadian 4H on Parade, one of the largest 4H farm shows in Canada, and the Calgary Stampede.

In managing our Offshore Nova Scotia holdings, technical and management teams from Canadian Superior and El Paso worked tirelessly and methodically through to November 2003 to complete detailed planning for our first "Mariner Project" exploration well. All required Canada-Nova Scotia Offshore Petroleum Board ("CNSOPB") approvals were obtained on an aggressive schedule that required a strong level of coordination and effort from the Canadian Superior and El Paso teams. This allowed us to commence "Mariner" I-85 drilling operations on time in November. The "Mariner" I-85 was drilled in a challenging high temperature, high pressure environment, utilizing the latest in drilling technology, and reached a total depth of approximately 5,408 metres (17,743 feet) to evaluate the first of three large structures identified for drilling on the "Mariner Project" licence. As announced on March 11, 2004, the "Mariner" I-85 well encountered gas pay in multiple zones as targeted. The factual accuracy of Canadian Superior's March 11, 2004 news release has been confirmed on numerous occasions by El Paso.

Also Offshore Nova Scotia, consistent with our stated objective of increasing our holdings in the Offshore Nova Scotia area, Canadian Superior successfully participated in the exploration licence land sale in 2003. In November 2003, the CNSOPB notified Canadian Superior that it was the successful bidder for two new exploration licences in the Sable Island area close to existing discoveries. These exploration licences, named "Marauder" and "Marconi", cover 370,881 acres, were acquired in return for work expenditures bids aggregating to $14.1 million, and contain several excellent seismically defined prospects.

GROW CASH FLOW AND PRODUCTION

In Trinidad, during 2003 Canadian Superior was successful in securing a significant joint venture covering a large, shallow offshore licence (55,000 acres). This joint venture holding with Petrotrin has the potential to establish significant oil and gas reserves in the heart of a known hydrocarbons-bearing structural trend. Efforts to increase our presence in Trinidad continued into 2004 with our bid for Production Sharing Contracts covering two Blocks located off the east coast of Trinidad, in the Trinidad and Tobago Ministry of Energy & Energy Industries' 2003/2004 Competitive Bid Round.

In relation to financing our high impact plays, it continues to be our strategy to maintain a strong balance sheet and to minimize our own financial outlay requirements wherever possible through joint ventures with partners at different phases of the exploration cycle. Where high impact explorations expenditures require funding beyond the limits of our internally generated cash flow, we continue to successfully source equity financing at appropriate times. Even where the potential rewards are large we are not prepared to compromise our balance sheet by over-extending ourselves. By using this disciplined approach to defining value in high impact prospects, we will endeavor to ensure that we continue to realize a high level of value in any joint ventures we enter into with partners.

In Western Canada, our objective over the past year has been to increase cash flow through expanded production to support our pursuit of "home run" opportunities for shareholders. We succeeded in achieving this through the El Paso acquisition in Drumheller, and moved forward with an aggressive oil and gas development drilling program in the Drumheller area during the third quarter of 2003 to add new production. By year-end, we had achieved a 92% success rate in the drilling of thirteen new Drumheller area oil and gas wells. Of the thirteen wells drilled during the third and fourth quarters, twelve wells were completed and six wells were placed on-stream during 2003 and were producing at an estimated combined 2003 exit production rate of approximately 237 boe/d. The remaining six wells were placed on-stream early in the first quarter of 2004 and added an estimated 750 boe/d to production. Drilling activities continued into 2004 with the drilling of four successful oil and gas wells during the first quarter. Drumheller will remain the focus of our conventional exploitation activities in Western Canada in 2004. Six additional wells are to be drilled to complete the first major drilling phase of our Drumheller area exploration and development program. Attention will also shift to horizontal drilling and a water flood proposed for the Mannville"I" Pool, exploration in untouched deeper drilling horizons and coal bed methane ("CBM") development at Drumheller. Drumheller is ideally suited for CBM exploration and production. At recent Drumheller Area land sales, CBM acreage has gone for $250,000 per section (approximately $390 per acre) and we have approximately 108 net sections (69,120 acres) in the Horseshoe Canyon CBM rich coal zones.

CORPORATE ACCOMPLISHMENTS DURING 2003

East Coast, Offshore Nova Scotia

- April 23, 2003: Announced that El Paso had elected to participate with us in the drilling of a second East Coast Offshore Exploration well. This significant farm-out agreement allows El Paso, upon satisfaction of all conditions, to obtain a 50% working interest in our 101,800 acre "Mariner Project" lands by committing to pay two-thirds of the cost of the first "Mariner Project" exploration well.
- August 6, 2003: Announced that necessary Geophysical/Geological Work Authorization approval had been obtained from the CNSOPB to commence well site surveys on the first "Mariner Project" drilling location.
- October 22, 2003: Announced the contracting of the Rowan Gorilla V rig for drilling of our "Mariner Project" exploration well. The Rowan Gorilla V is a Super Gorilla Class Jack-up Rig designed for harsh environment drilling operations. This rig was used in 2002 for the drilling of our first exploration well on the "Marquis Project" lands.
- November 13, 2003: Announced the acquisition of Land Parcels #2 and #4 at the CNSOPB November 2003 Land Sale for Work Expenditure Bids aggregating to $14.1 million. This acquisition added 370,881 acres to our Offshore Nova Scotia land holdings and is close to existing Sable Island discoveries. The Company is currently one of the largest Offshore Nova Scotia acreage holders, third largest among public companies, with interests in 1,293,946 acres.
- November 20, 2003: Announced the commencement of drilling of the Canadian Superior El Paso "Mariner" I-85 well approximately nine kilometres northwest of the Sable Island Energy Project's Venture gas field.

Trinidad and Tobago, Offshore Trinidad

- October 8, 2003: As a result of successful negotiations, we announced the establishment of a significant joint venture with Petroleum Company of Trinidad and Tobago Limited. The joint venture, known as our "Tradewinds Project", covers 55,000 acres of near shore acreage in the Mayaro Bay/Guayaguayare area, off the East Coast of Trinidad, and is a "World Class" opportunity for Canadian Superior on-trend with the recently discovered BHP Billiton/TotalFinaElf/Talisman Energy Angostura and Aventura Carapal Ridge oil and gas fields. The Angostura field has estimated recoverable reserves of 160 million barrels of oil and 1.75 trillion cubic feet of natural gas. The Carapal Ridge licence has estimated proven and probable reserves of 0.5 trillion cubic feet of natural gas.

DRILL AND DEVELOP "WORLD CLASS" OFFSHORE PROJECTS

Western Canada

January 13, 2003: .... Announced an agreement to acquire 5.5 million boe of established reserves in the Drumheller area from El Paso.
January 20, 2003: .... Commencement of drilling of the first of two wells during 2003 as part of a multi-well program planned for our East Ladyfern acreage.
March 20, 2003: .... Closing of the Drumheller acquisition for $65 million ($53.5 million net of adjustments).
July 2003: .... Commencement of the first phase of exploration and development activities on our Drumheller area holdings.

Financing

- Thanks to the strong support of our shareholders, in excess of $79 million in new equity capital was raised in a series of separate successful financings during 2003. These financings were critical achievements required to ensure that our balance sheet was properly strengthened, enabling us to pursue aggressive acquisitions and drilling activities.

February, 2003: .... $21.4 million at $1.60 per common share
March, 2003: .... $13.6 million at $1.50 per Unit consisting of one common share and ½ of a $2.00 common share purchase warrant
July 2003: .... $1.5 million at $1.90 per flow-through share
November, 2003: .... $15.6 million at $3.25 per flow-through share
December, 2003: .... $22.0 million at $3.04 per common share and $1.15 million at a $3.35 average price per flow-through share (or flow-through special warrant)
Warrants and Options: .... $4.0 million, exercised at $1.42 per share average price

- During the year, we maintained a strong balance sheet and exited the year with net debt of only $3.74 million, as compared to $5.5 million at the end of 2002.

CORPORATE RESPONSIBILITY AND COMMUNITY INVOLVEMENT

Canadian Superior is a strong advocate of direct corporate involvement in communities contributing to, or affected by, its activities. We believe that direct community involvement enhances our ability to properly achieve common goals. Significant efforts are exerted to ensure that we have a responsible and responsive corporate presence. We conduct regular discussions with community representatives and stakeholders and we take care to ensure that planned activities are fully explained. Our attitude of direct involvement with local communities is consistently supported by sponsorship of community programs. In 2003, we along with El Paso made $50,000 in contributions to training and education programs at Post Secondary Institutions in Nova Scotia. This has contributed to education and training, as well as to oil and gas related research and development activities, for students enrolled in undergraduate education programs in Nova Scotia. We have provided Education, Training, and Research and Development funds to Dalhousie University, St. Francis Xavier University, the University College of Cape Breton and the Nova Scotia Community College. This support has allowed several teams of students to complete six research and development projects related to the oil and gas industry. It has also provided 16 students with education and training bursaries ranging from $600 to $2,000 each depending on the program and student's need.

In Western Canada in Alberta, we committed $120,000 in cancer research donations and we contributed in excess of $200,000 to various other urban and rural communities, charitable organizations and sponsorships. The Corporation supported a major cancer research project at the University of Calgary. During 2003, the Corporation also supported the Calgary Chinook Scout Foundation, the Rockyview General Hospital, STARS, the Alberta Cancer Foundation, the IWK Children's Hospital Foundation, the Canadian Diabetes Association, the Nova Scotia Discovery Centre, the Nova Scotia Nature Trust, the Nova Scotia Safety Council and Ducks Unlimited, among others. The Company is also a major sponsor of the Calgary Stampede and 4H on Parade, the latter being one of the largest rural youth agricultural shows in North America. We intend to actively continue with support for community and charitable programs and initiatives and we encourage our staff and management to do the same.

In Trinidad, we intend to interact with and support local communities and programs and to generally conduct our activities in a manner consistent with our objective of being viewed as a responsible and responsive Corporation.

2004 CORPORATE GROWTH STRATEGY

Our corporate growth strategy during 2004 will be directed at, and framed by, the following six key items:

1. We intend to **continue forward with further drilling of our "World Class" Offshore Nova Scotia holdings.**
   - We intend to proceed with further drilling on our "Mariner Project" lands. Three large prospective structures have been identified with only one drilled to date.
   - We plan to conduct 3-D seismic acquisition on the "Marquis" lands with the objective of advancing a second exploration well.

MAINTAIN A STRONG BALANCE SHEET

- In relation to our "Mayflower" lands, we are working to secure a joint venture partner to shoot seismic and we intend to move ahead with drilling targets identified on the "Mayflower" block as quickly as possible. A Confidentiality Agreement is in place between Canadian Superior and a potential partner.
- In relation to "Marauder" and "Marconi", we have identified a number of excellent seismically defined prospects and we intend to seek further joint venture partners to shoot additional seismic aimed at establishing drilling locations, and to complete the necessary front end regulatory approval activities in support of our planned exploration activities.

2. We will **continue to leverage the expertise we have developed Offshore Nova Scotia** into other "World Class" basins. An example of this is the securing of a significant joint venture with the Petroleum Company of Trinidad and Tobago Limited, covering 55,000 acres of near shore acreage, a "World Class" opportunity. Efforts to increase our presence offshore Trinidad opportunities will continue throughout 2004.
3. We will **continue development of our strategic core production assets** in the Drumheller area of Alberta. With the near completion of our first phase of Drumheller area drilling operations, our attention will shift to horizontal drilling and a proposed waterflood for the Mannville"I" Pool, exploration in untouched deeper drilling horizons and CBM development.
4. Further **exploration and development in high impact exploration areas** such as East Ladyfern will be conducted in 2004.
5. We will continue to **ensure that balance sheet strength is maintained** in order to properly balance high impact project risk.
6. We are **on-watch for opportunities to expand our core corporate interests** through strategic acquisitions.

OUTLOOK – 2004 and Longer Term

Our strategic Corporate Objectives for sustainable growth are:

- To continue to grow Western Canadian cash flow and production base focusing on the Drumheller area and high impact Western Canadian plays
- To maintain a strong balance sheet
- To target exiting 2004 with production of 5,000+ boe/d of oil, NGLs and natural gas
- To continue forward with drilling and development of "World Class" projects Offshore Nova Scotia and Offshore Trinidad to deliver home runs for shareholders
- To continue to expand underlying value for shareholders through the drill bit and by strategic acquisitions

We expect to continue with programs initiated in 2003 to increase Western Canadian cash flow and production focusing on the Drumheller area and high impact Western Canadian plays. These activities will complement the high impact opportunities we intend to continue to pursue for our shareholders Offshore Nova Scotia and in Trinidad. This strategy, complemented by the continued strong support of our shareholders, evidenced in the consistently active trading of our shares, combined with buoyant equity capital markets during 2003, allowed us to fund high impact capital projects without compromising the integrity of our balance sheet. In particular, it allowed us to optimize our position in our "Mariner Project" working interest of 50% by providing the money required to fund a one-third share of estimated costs of the first "Mariner" exploration well that spudded on November 20, 2003. As a result, Canadian Superior successfully ended 2003 holding assets with "World Class Home Run" potential Offshore Nova Scotia and in Trinidad, and we expanded our solid Western Canadian cash flow and asset base.

Over the longer term, we intend to continue to increase the value of our corporate assets through the drill bit, by strategic acquisition, and by continuing to maintain high working interests and a strong balance sheet, while aggressively developing our newly acquired Trinidad interests and our "World Class" East Coast assets. We expect solid results to be delivered from the exciting opportunities being pursued by our Company. Over the last three years our average share price growth has been 63% per year. From January 1, 2003 to December 31, 2003 the share price grew over 2 fold, an increase of 117%. During 2003 we have been one of the top performers on the AMEX and TSE. The average trading volume for our common shares on the two exchanges was approximately 570,000 shares per day. We are confident that our continued hard work, along with the support of our shareholders will result in the achievement of further superior returns for our shareholders as we remain focused on our objective of growing the Corporation and continuing to add value for our shareholders.

Respectfully submitted on behalf of the Management, Staff and Board of Directors of Canadian Superior Energy Inc.

Greg S. Noval
President & CEO
May 7, 2004

EXPAND SHAREHOLDER VALUE

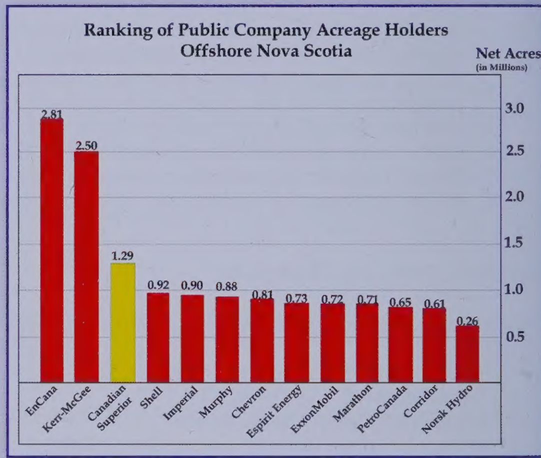
PRINCIPAL PROPERTIES

Canadian Superior's principal properties can be divided into three distinct groupings.

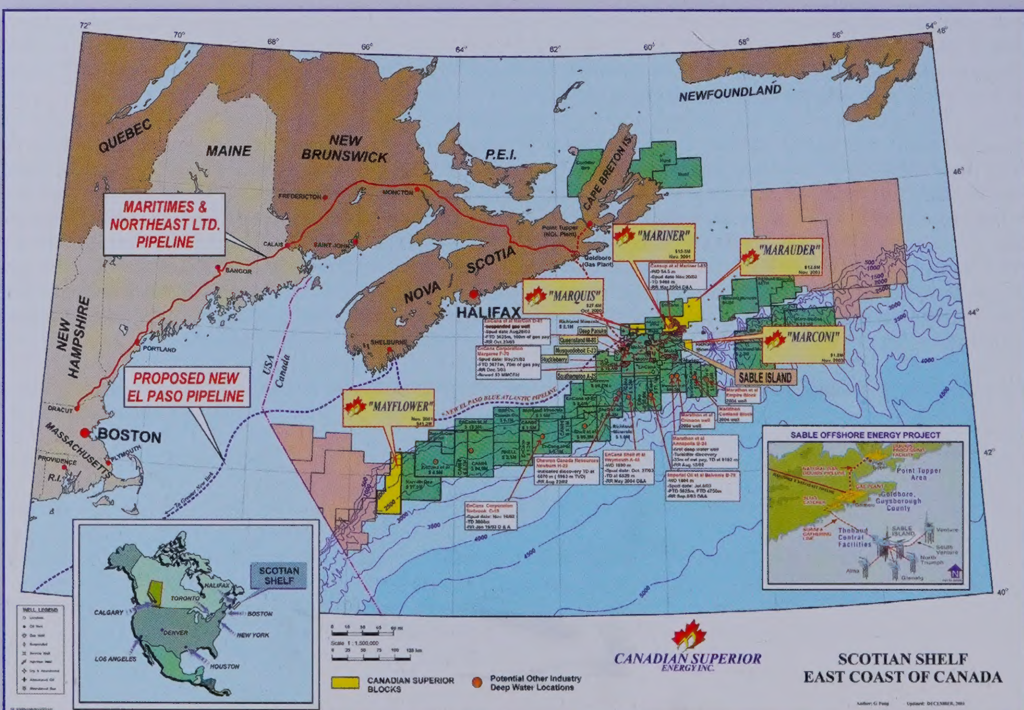
1. East Coast Canada, Offshore Nova Scotia
2. Offshore Trinidad
3. Western Canadian Holdings

EAST COAST CANADA, OFFSHORE NOVA SCOTIA

During 2003, Canadian Superior emerged as one of the largest acreage holders Offshore Nova Scotia with interests in six exploration licences totaling 1,293,946 acres. During 2002 and 2003, significant joint venture agreements were entered into with subsidiaries of the El Paso Corporation in relation to the "Marquis" and "Mariner" Projects. These joint venture agreements encompassed three of our six exploration licences. The combined effect of the Canadian Superior - El Paso joint venture agreements is that Canadian Superior contributed exploration projects identified on three exploration licences, and Canadian Superior and El Paso pooled various financial and technical strengths and resources to drill two exploration wells. The first exploration well, known as "Marquis" L35/L35A was drilled in 2002 to a depth of 4,552 metres (14,934 feet). The second exploration well, known as Canadian Superior El Paso "Mariner" I-85, spudded on November 20, 2003 and was a deep exploration well drilled to a depth of 5,408 metres (17,743 feet).



Pursuant to the terms of the initial joint venture agreements, executed on April 23, 2002, El Paso could earn, upon satisfaction of all conditions, a 50% working interest in the "Marquis Project" by joining Canadian Superior in the drilling of the "Marquis" L-35/L-35A well. On April 16, 2003, El Paso Corporation, through its Canadian subsidiary El Paso Oil and Gas Canada, Inc., elected to participate in the drilling of a well on the "Mariner Project" lands. Under this farm-in agreement, El Paso elected to participate, on a promoted basis, in the drilling of an exploration well on our "Mariner Project". Under the proposed farm-out Canadian Superior would retain a 50% working interest in the "Mariner Project" and contribute only one-third of drilling costs of the first "Mariner" exploration well, subsequently designated the Canadian Superior El Paso "Mariner" I-85 well.



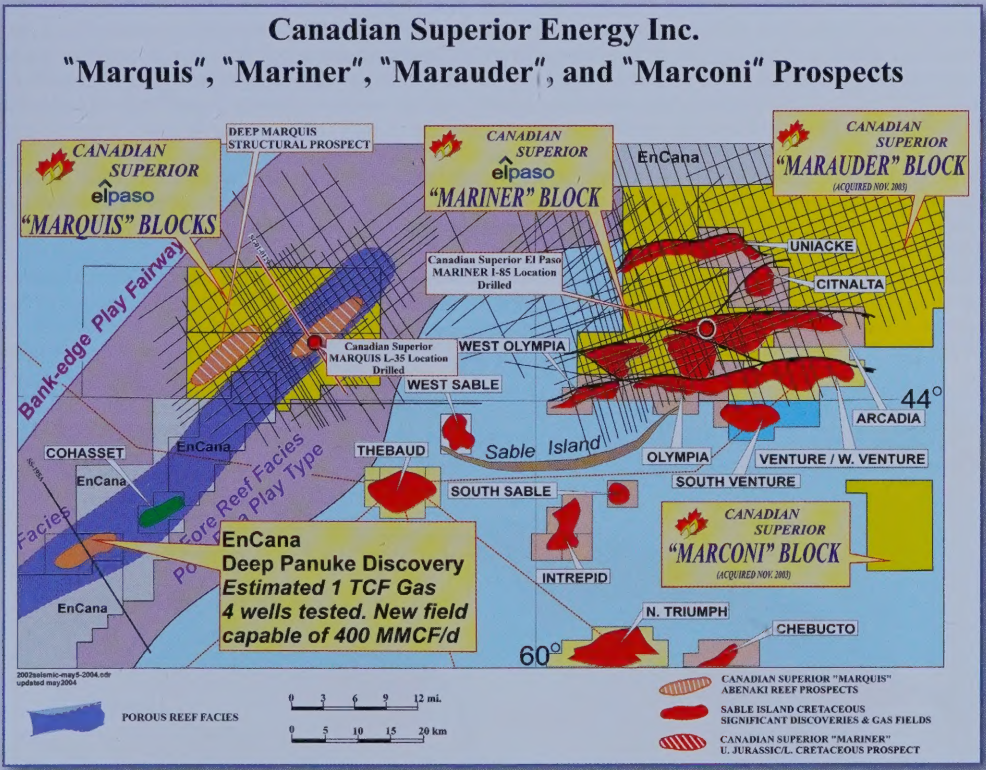
Note: Expanded versions of Annual Report maps may be viewed on www.cansup.com

"Mariner Project" (EL 2409, 100% WI; subject to El Paso earning a 50% WI)

Canadian Superior's "Mariner Project" is a "World Class" exploration project located approximately nine kilometres northeast of Sable Island, Offshore Nova Scotia. This project encompasses an offshore area of 101,800 acres and directly offsets five significant discoveries near Sable Island, including the ExxonMobil Venture natural gas field. El Paso Corporation, through its Canadian subsidiary El Paso Oil and Gas Canada, Inc., has farmed-in to participate in the drilling and development of our "Mariner Project".

During 2003, extensive planning was completed for the drilling of our second exploration well Offshore Nova Scotia. During the third quarter, Canadian Superior and El Paso selected a location for the next exploration well, "Mariner" I-85, approximately nine kilometres northwest of the Sable Offshore Energy Project's Venture gas field. Spudding occurred November 20, 2003. This farm-out allows El Paso, upon satisfaction of all conditions, to obtain a 50% working interest in the 101,800 acre "Mariner Project" lands by committing to pay two-thirds of the cost of the first "Mariner Project" exploration well.

This first "Mariner Project" well was a high temperature, high pressure well drilled to a total depth of approximately 5,408 metres (17,743 feet) to evaluate one of three large structures identified on the "Mariner Project" licence. This well was one of the deepest offshore wells drilled in Canada in 2003. The Rowan Gorilla V jack-up drilling rig was contracted to drill this well utilizing the latest in drilling technology.



On March 11, 2004, in a Press Release Canadian Superior announced that "Mariner" I-85 well had encountered gas pay in multiple zones. The high bottom hole pressures experienced in offset discovery wells were encountered at the depths anticipated. The magnitude of the overpressure was quantified while drilling, based on measured gas levels in the drilling fluid, and subsequently confirmed during the well evaluation with pressure measurements. Gas levels measured while drilling supported the presence of gas bearing reservoir sections, subsequently confirmed by the full suite of electric wireline logs completed and evaluated. In view of the overall well cost and other pertinent factors such as weather conditions, Canadian Superior agreed with El Paso, Operator of the well, not to proceed with flow testing to surface and/or completion operations. The factual accuracy of Canadian Superior's March 11, 2004 Press Release has been confirmed on numerous occasions by El Paso.

On March 25, 2004, an announcement was made that abandonment operations had been safely completed. Canadian Superior remains confident that results from the "Mariner" I-85 well prove that a substantial gas pool exists between the "Mariner" I-85 well and the Arcadia J-16 well, and we are confident that we have established a significant gas reservoir on the "Mariner" block between these two wells. We plan to move forward with further drilling on the "Mariner" block in the near future.

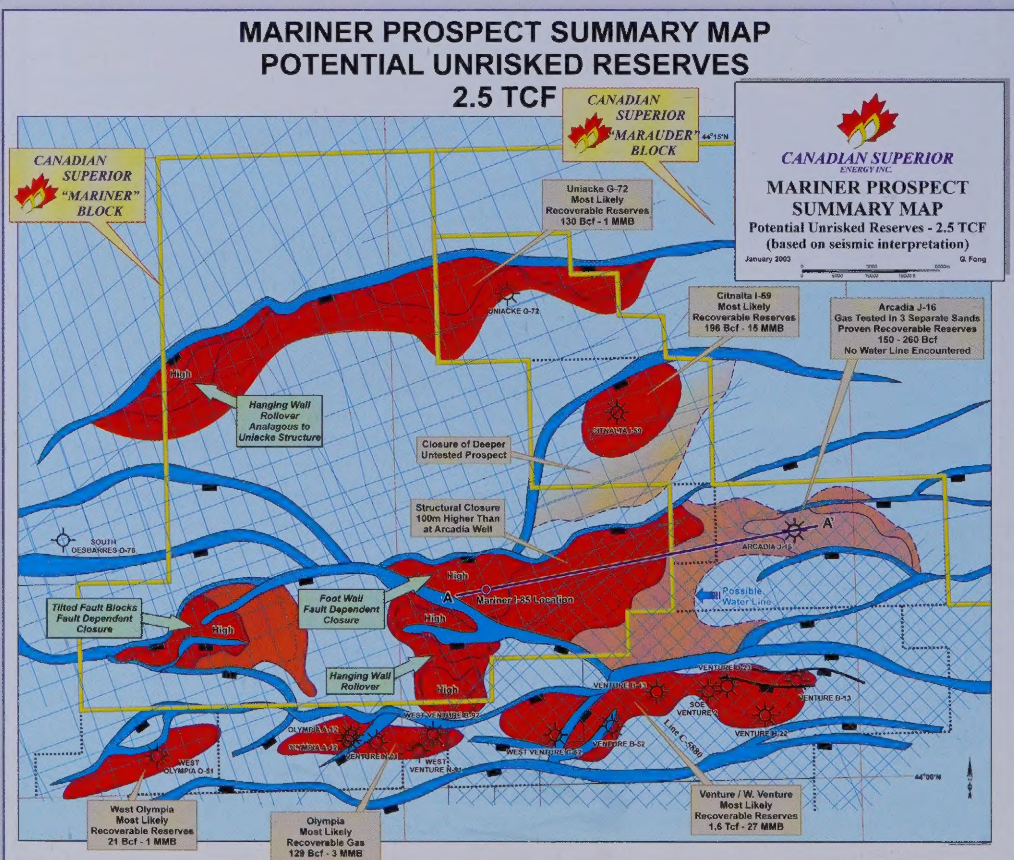
When El Paso decided not to flow test the well to surface, Canadian Superior had the opportunity to elect to take over the well. However, if the election to take over the "Mariner" I-85 well had been made, Canadian Superior would have been responsible for:

i. all flow testing costs, including 100% of the cost for up to three flow tests, which were recommended by Canadian Superior's technical personnel,
ii. costs associated with suspension or abandonment of the wellbore; and
iii. costs associated with returning the rig to Halifax, some 180 miles from the "Mariner" I-85 well site.

The aggregate estimated cost to Canadian Superior would have been between \$26.7 million and \$32.7 million for the 3 flow test case. This estimate assumes that there were no unforeseen additional costs associated with equipment problems, pack ice, other weather downtime or any other unexpected issues, which could accrue additional costs at various day rates, depending on the activity, and are often in excess of \$250,000 per day. Any such additional costs would have been for Canadian Superior's account. In view of the above mentioned considerations, Canadian Superior elected to maintain the Company's focus on financial discipline and decided not proceed with the flow testing on its own.

Given Canadian Superior's view of the positive nature of the "Mariner" I-85 results, Canadian Superior's expectation that more "Mariner Project" drilling would be undertaken, and the Corporation's recognition of the above mentioned cost situation, Canadian Superior did not elect to take over the "Mariner" I-85 well. The originally estimated cost to drill, log and abandon the well for Canadian Superior was \$15 million (1/3 of \$45 million); an aggressive target considering recent costs of similar wells. Canadian Superior's expected cost for its 1/3 share of the drilling costs for the "Mariner" I-85 well is estimated to be approximately \$13.9 million, meeting budget expectations and within normal industry tolerances, as opposed to the \$26.7 million to \$32.7 million plus in potential costs outlined above.

The "Mariner" I-85 well was drilled on the first of three prospects identified on the "Mariner Project" lands. The I-85 well was located in shallow water depths of approximately 55 metres (180 feet) on the southeast side of our licence approximately 13 kilometres west, and up-dip, of the Mobil Arcadia J-16 discovery and eight kilometres northeast of the West Venture C-62 and Venture B-52 wells.



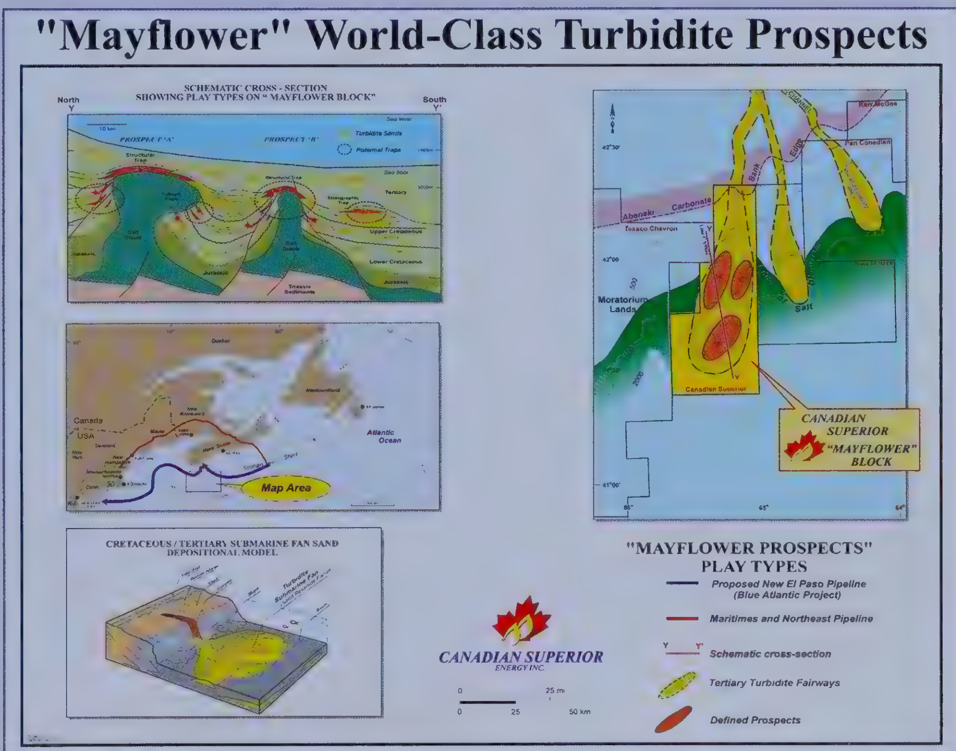
"Marquis Project" (EL 2401 & EL 2402, 50%WI)

Our "Marquis Project" lands encompass two exploration licences with approximately 112,000 contiguous acres located in shallow water depths close to the existing Sable Offshore Energy Project producing infrastructure. The "Marquis Project" lands are located approximately 20 kilometres northwest of Sable Island and approximately 25 kilometres northeast of EnCana's Deep Panuke Abenaki reef natural gas discovery. During 2002 the first "Marquis" exploration well, L-35/L-35A, was drilled and confirmed the presence of a porous Abenaki reef reservoir in three separate zones within the massive Abenaki reef complex. El Paso earned a 50% working interest to the depth drilled in the "Marquis Project" by joining Canadian Superior in the drilling of the "Marquis" L-35/L-35A well. Our primary target in the "Marquis Project" continues to be a large carbonate reef bank reservoir analogous to EnCana's Deep Panuke discovery located 25 kilometres southwest of the "Marquis" well. During 2003, we continued to move forward with El Paso in planning for further drilling on our "Marquis Project". A targeted high-resolution 3-D Seismic Survey on the "Marquis Project" lands, originally scheduled for September of 2003, was postponed due to adverse weather conditions and is expected to proceed in due course. This additional seismic data will provide detailed geophysical data that can now be tied to measured well bore data obtained through the drilling of the "Marquis" L-35/L-35A exploration well. This should allow us to identify optimal future drilling locations on the Abenaki Reef up-dip from our 2002 "Marquis" L-35/L-35A well.

"Mayflower Project" (EL 2406, 100% WI)

Canadian Superior's "Mayflower Project" exploration licence, covering approximately 710,000 acres, was acquired in November 2001 for a Work Expenditure Bid of $41.25 million. This project area is located approximately 460 kilometres east of Boston. Mapping to date indicates the presence of five sizeable deep-water prospects within the "Mayflower" block. These large prospects are structural and are typically formed by mobile salt tectonics. Prospect sizes range from 50 to 200 square kilometres in size and are located in 1,300 to 2,500 metre water depths. These types of prospects have been successfully explored in other basins along the Atlantic margin and contain the potential for large discoveries. Similar deep-water structures offshore West Africa and in the Gulf of Mexico have resulted in several hundred million barrel discoveries. The gas discovery by Marathon and its partners in a turbidite deposit Offshore Nova Scotia has proven the turbidite play concept and establishes that there is hydrocarbon source rock and reservoir in the deep water plays. We currently plan to proceed with a seismic program over the "Mayflower" block to further define target structures for drilling.

The deep-water plays Offshore Nova Scotia have attracted interest from large international oil and gas companies. Canadian Superior is working to secure joint venture partners for the deep water "Mayflower" block. A Confidentiality Agreement is in place between Canadian Superior and a potential partner. The "Mayflower" joint venture partnership is being structured on terms similar to past joint ventures and it is expected to result in the release to us of most of the $10.3 million in secured term deposits currently assigned to the "Mayflower" block.



"Marauder" & "Marconi" Prospects (El 2415 & 2416, 100% WI)

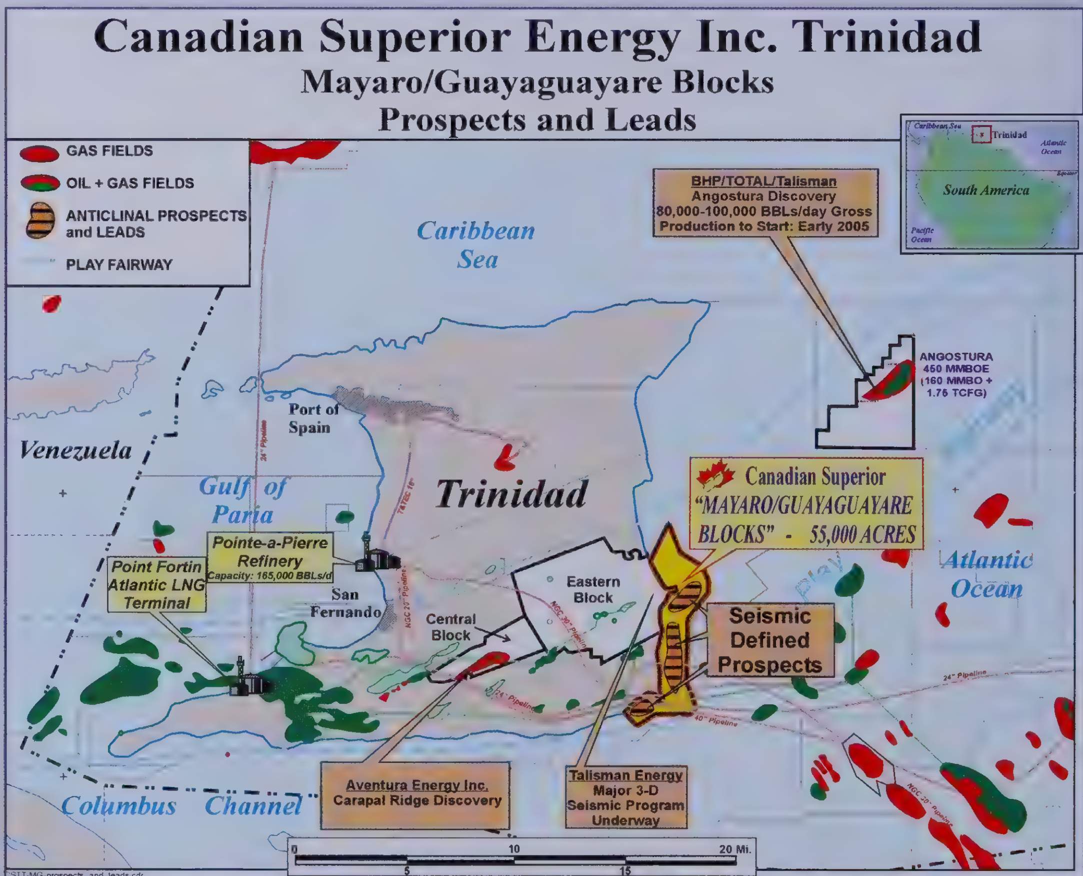
On November 13, 2003, Canadian Superior announced the acquisition of two new Exploration Licences Offshore Nova Scotia from the CNSOPB, covering 370,881 acres. Land Parcels #2 (EL 2415) and #4 (EL 2416) were acquired for Work Expenditure Bids aggregating to $14.1 million. These exciting exploration licences, named "Marauder" (EL 2415) and "Marconi" (EL 2416), were targeted for acquisition based on analysis of proprietary seismic data and in-house geological evaluations. "Marauder", encompassing 312,037 acres, directly offsets three Significant Discovery Licences (Uniacke, Citnalta and Arcadia). "Marauder" has four seismically defined prospects, two of which lie on trend with and are related to the Uniacke and Citnalta significant discoveries. This provides Canadian Superior with an attractive position in this proven area of the basin. "Marconi" (EL 2416), encompassing 58,844 acres, is adjacent to Exploration Licence 2372 (ExxonMobil, Shell, Imperial Oil), acquired in 1999 for a Work Commitment Bid of just over $55 million. The "Marconi" licence has a seismically defined tilted fault / anticlinal prospect similar to other Sable area fields such as Glenelg and Alma. We are very pleased with these acquisitions.

The Canadian Superior website at ***www.cansup.com*** contains detailed Offshore Nova Scotia maps and project descriptions.

OFFSHORE TRINIDAD

"Tradewinds Project"

During 2003, Canadian Superior secured a joint venture position in one of the most exciting oil and gas exploration basins in the world. The joint venture, known as our "Tradewinds Project", covers 55,000 acres of near shore acreage in the Mayaro/Guayaguayare area, off the East Coast of Trinidad, and represents a "World Class" opportunity on-trend with the recently discovered Angostura and Carapal Ridge fields. This joint venture acreage has the potential to establish significant oil and gas reserves in the heart of a known hydrocarbons-bearing structural trend.



A joint venture agreement with Petroleum Company of Trinidad and Tobago Limited ("Petrotrin") encompasses two Blocks (55,000 acres) in the Mayaro/Guayaguayare area. Petrotrin, an integrated oil company owned by the Government of the Republic of Trinidad and Tobago, produces approximately 60,000 barrels of oil per day and owns a refinery in Trinidad capable of handling 165,000 barrels of oil per day.

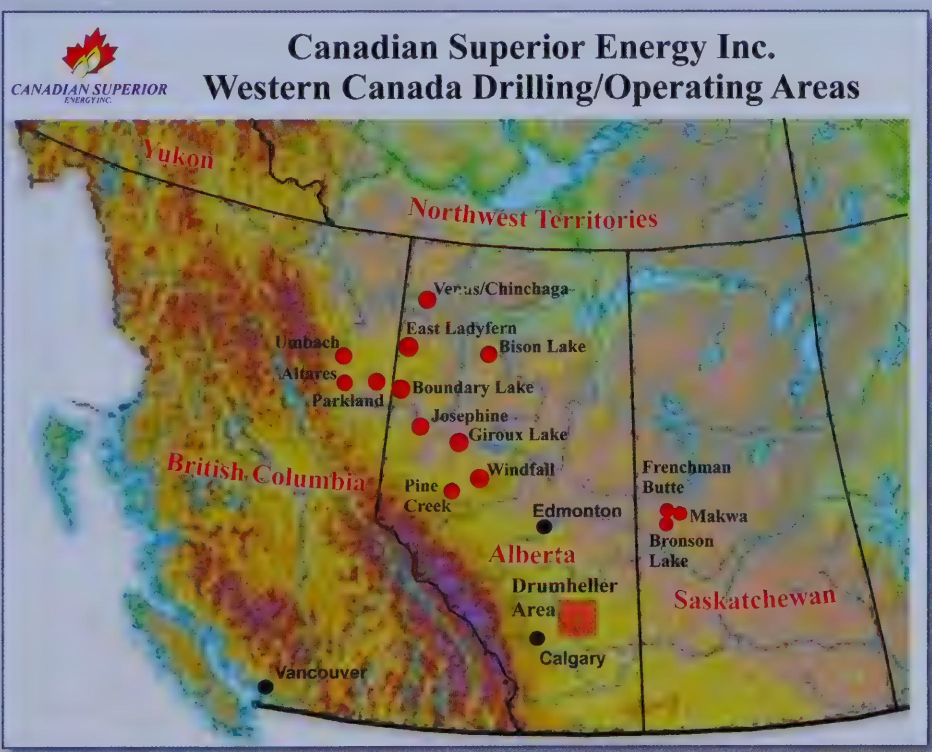
Under the terms of the joint venture agreement, Canadian Superior and partners will initially conduct approximately 259 square kilometres (100 square miles) of high resolution offshore 3-D seismic over the Mayaro/Guayaguayare area and plan to drill two separate seismically defined structures on the properties. Our planning target is to commence seismic operations in the summer of 2004 and to commence drilling operations in the fourth quarter of 2004 or shortly thereafter.

The Mayaro/Guayaguayare Blocks are located on highly prospective acreage located near shore along the east coast of Trinidad. The Blocks, positioned between the Navette (onshore) and Galeota (offshore) fields, are on-trend with the recently discovered BHP Billiton/TotalFinaElf/Talisman Energy Angostura and Aventura Carapal Ridge fields. The Navette field is located 1.5 miles directly east from the Mayaro/Guayaguayare Blocks and to date has produced over 60 million barrels of oil. The Angostura field is located to the east of Mayaro/Guayaguayare. It was discovered in 1999 and is estimated to contain reserves of approximately 1.75 tcf of natural gas and 160 million barrels of oil. Angostura is expected to begin production in early 2005 at an initial rate of 80,000 to 100,000 bbls per day. The Aventura Carapal Ridge field, discovered in 2000, is estimated to contain proved and probable reserves of approximately 500 bcf of natural gas. A single well at Carapal Ridge located on-trend to the west of the Mayaro/Guayaguayare Blocks has been on an extended restricted production test and has potential deliverability of 17,000 boe per day, while a second well at Carapal Ridge has potential deliverability of 6,800 boe per day.

Efforts to increase our presence in shallow offshore Trinidad opportunities will continue during 2004. Trinidad is currently one of the most coveted oil and gas exploration basins in the world. We believe that with a government and people that are very supportive of the oil and gas industry, fair win-win production sharing terms, a stable legal and fiscal system, and the presence of multiple exploration and development opportunities, our ongoing efforts to establish meaningful positions in attractive prospective acreage are justified. As a result, early in 2004 we submitted bids for Production Sharing Contracts for two Blocks located off the east coast of Trinidad. Canadian Superior's bids have been qualified by the Government of Trinidad & Tobago in the final round of bidding against some of the largest oil and gas companies in the world. The Company anxiously await the results of the final bid round. Both blocks possess significant exploration potential for oil and gas. Block 5(c) offsets the large Dolphin gas field that is operated by British Gas. This field produces in excess of 200 mmcf / day of gas. Block 2 (ab) is positioned on-trend with and to the west of the Angostura oil discovery. If successful in these bids, we intend to aggressively pursue execution of agreements and the initiation of exploration activity.

WESTERN CANADIAN HOLDINGS

In Western Canada our 2003 focus was concentrated on initiating a development drilling program on the Drumheller area assets acquired in March. Production for 2003 averaged 2,285 boe/d, almost triple the 846 boe/d average production level reported for 2002. During 2003, production increased substantially to approximately 2,650 boe/d at year end. Production reached in excess of 3,000 boe/d at the end of April 2004. Further production additions are expected from continued drilling in the Drumheller area and from activities in winter access areas that are expected to be renewed in the fall of this year.



Alberta

Drumheller Area Assets

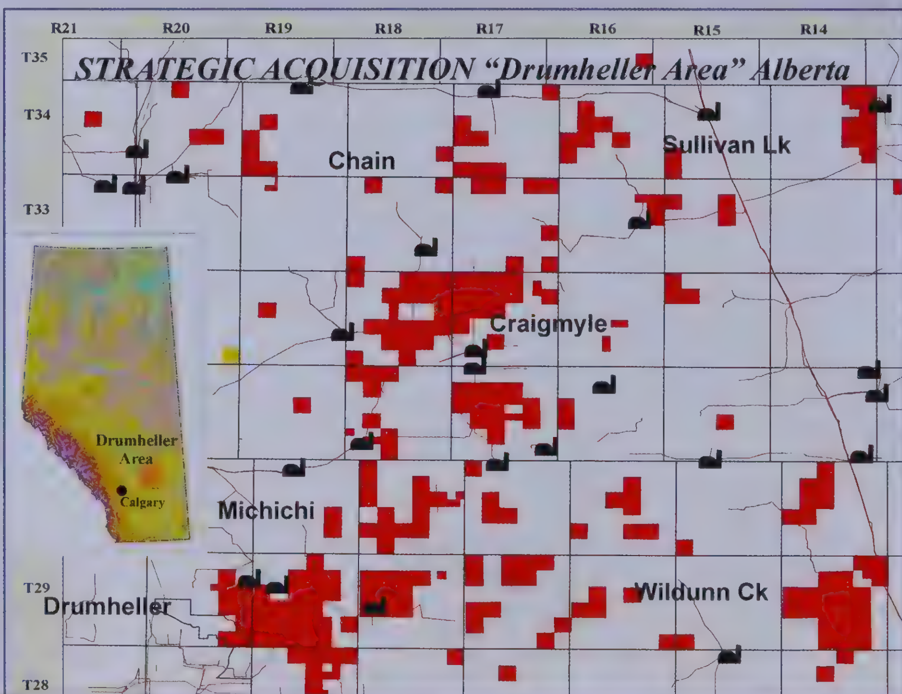
The Drumheller asset acquisition was an important strategic acquisition for Canadian Superior that established a significant new core Western Canadian operating base. The transaction added significant natural gas (75%) and light sweet oil production (25%), approximately 5.5 million boe in established reserves, underutilized gas plant capacity, strategic production facilities, extensive seismic data, a large undeveloped land position comprised of 170,000 gross acres (106,693 net acres), and a healthy portfolio of identified drilling locations. This was one of the better acquisitions in Western Canada in 2003 with a purchase price equating to $20,576 per flowing boe/d, compared to recent production asset transaction prices of as much as $50,000 per flowing boe/d (Oil and Gas Investor, April 2004). Key infrastructure assets include interests in three gas plants, three oil batteries, 20 production facilities and 130 kilometres of company-operated pipelines.

The Drumheller area is now Canadian Superior's largest single producing area and Canadian Superior is one of the major area land holders. Thirteen successful oil and gas wells were drilled in 2003, with twelve wells completed, six wells tied-in in 2003, and the remaining six wells tied-in early in 2004. A total of 23 new exploration and development locations were surveyed during 2003. Thirteen locations were drilled in 2003, four locations were drilled in the first quarter of 2004 and six locations remain to be drilled to complete the first phase of our Drumheller area drilling program.

The Drumheller assets are core holdings that can be enhanced in the following areas:

- Shallow depth development and exploration drilling.
- Horizontal well drilling programs.
- Recompletions, reactivations and facilities optimization programs.
- Commingling production from multiple potentially productive oil and gas zones between surface and 1,400 metres.
- Examining the potential for a full waterflood program in the Mannville "I" Pool.
- Exploration in untouched deeper drilling horizons.
- Coal bed methane development. We have identified coal bed methane potential in our existing wellbores and on our undeveloped lands.

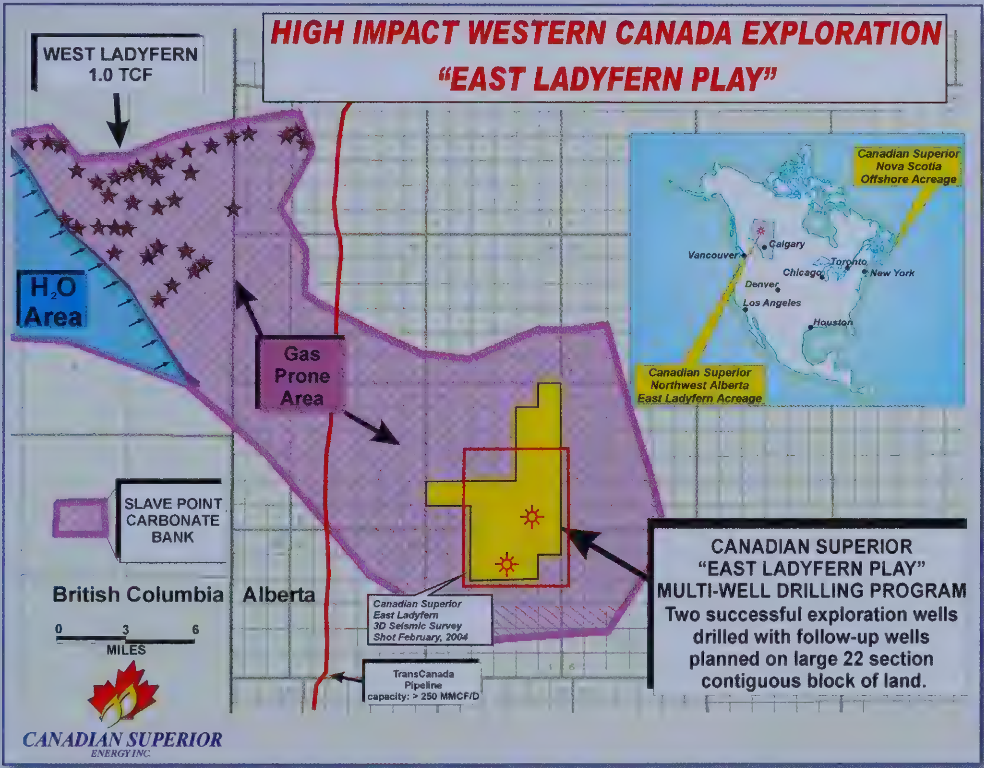
During 2003, we conducted an in-depth assessment of the potential for coal bed methane production on our large Drumheller area landholdings. Our landholdings are situated in the heart of significant thick coal bed accumulations. Our assessment confirmed the potential for commercial production and led to the drilling of two test wells in joint ventures with Trident Exploration Corp. and APF Energy. As the Drumheller area coal bed potential develops, we may consider disposing of our coal bed rights. We currently hold approximately 108 net sections (69,120 acres) of Drumheller area lands with potential for coal bed methane production. Recent sales prices for Drumheller area lands with coal bed methane potential have exceeded $250,000 per section (approximately $390 per acre).



Alberta Winter Area Operations
During 2003, drilling occurred in winter access areas with a particular focus on the East Ladyfern area, where two Slave Point natural gas discoveries were made early in the year. In addition, a 3-D program covering 23 of our 24 section holdings was shot along with approximately five square miles of additional area seismic.

East Ladyfern Area, Alberta (50%-75% WI, Operated):
Canadian Superior holds approximately 15,360 focused acres in the active East Ladyfern area. This area is a significant high impact exploration area for Canadian Superior that is only accessible in winter months. We currently hold 24 contiguous sections of land in this area. During the first quarter of 2003, we successfully drilled two Slave Point gas wells jointly with our partner El Paso, who farmed-in and participated to earn 25%. Based on preliminary results, we were confident that our new discoveries could result in the establishment of a new Slave Point natural gas field. Planning continued in the second and third quarters for completion of testing of the new wells and for further drilling in the future. However, our partner El Paso Canada was put up for sale and operations were limited to the successful completion of one well and to the completion of 3-D seismic acquisition.

Early in 2004 we completed 62 square kilometres (24 square miles) of 3-D seismic in the East Ladyfern area over our landholdings. Based on this seismic, several new high quality locations have been identified for drilling. Wellsite surveys are expected to be completed later in 2004 and drilling operations are expected to proceed later this year after freeze-up. A multi-well program is expected to follow. East Ladyfern pipeline routes have been surveyed and plans have already been submitted to government agencies.



Windfall (100% WI, Operated):
Canadian Superior holds approximately 7,840 acres in the Windfall area south of Edson. Gas gathering and facilities optimization projects were implemented during 2003 to bring new gas on-stream in this gas production area. Production from this area averaged 192 boe/d during 2003. Additional lands were acquired during 2003 and plans for a three well winter drilling program are being considered for 2004. One wellsite has been surveyed and is ready to be drilled. Our original plans to drill last winter were deferred. The primary targets in the Windfall area are Gething, Nordegg and Notikewan natural gas targets. Seismic interpretation has also identified a deep oil bearing objective that may result in a high impact exploration well being drilled this winter.

Twinning (66.7% WI, Operated):
In the Twinning area of Central Alberta, Canadian Superior holds an average 66.7% working interest in 3,840 acres of landholdings and is operator. Drilling during 2003 resulted in the tie-in prior to year-end of a 100% owned oil well that added 50 bbls/d to production. Production from this area averaged 37 boe/d during 2003.

Other Alberta Activity Areas
In the Boundary Lake area of Northwest Alberta, Canadian Superior holds 12,480 gross acres (9,504 net acres). Production from this area averaged 50 boe/d during 2003. Based on acquired seismic, two multi-zone deep oil targets have been identified for drilling.

In the Bison Lake area of North Central Alberta, Canadian Superior continued with the development of multi-zone targets during 2003. One new sour gas well was placed on-stream during the year at approximately 0.5mmcf/d. (Total production from this area averaged 160 boe/d during 2003.) Approximately 22,400 acres are held 100% by the Company in this area. Potential exists to drill Wabamun targets on these lands.

Given the nature and location of the Boundary Lake and Bison lake areas relative to our core holdings at Drumheller, these areas may be the subject of property dispositions in 2004.

British Columbia

Canadian Superior holds lands covering 15,243 gross acres (11,506 net acres) in Northeast British Columbia.

Umbach (62.5%-100% WI, Operated):
The Umbach area north of Fort St. John, is a potential high impact area. The Company's landholdings total 5,557 gross acres (3,994 net acres). Based on our analysis of a large seismic database, Canadian Superior is focusing on a deep objective in the Slave point formation that is on-trend west of the Ladyfern area. Drilling of this high impact play is being planned for 2004.

Altares (33%-100% WI, Operated):
In the Altares area of northeast British Columbia, Canadian Superior holds a 4,566 gross acreage position (2,392 net acres) on a foothills overthrust prospect jointly with Unocal Canada Limited. We are targeting the Mississippian formation for future drilling. This high impact prospect is adjacent to two recent major discoveries by Anadarko and is directly on-trend and analogous to the large Kobes Creek natural gas field located in Northeast British Columbia.

Parkland (100% WI, Operated):
The Company holds 5,120 acres of land in Parkland, south of Fort St. John. A successful exploration well was drilled with Mississippian, Permian and Cretaceous potential. This well is expected to be completed and production tested during 2004. Additional drilling is planned for this high impact area.

Canadian Superior drilling and well testing operations being conducted in a winter access area in Northwest Alberta.

RESERVES SUMMARY December 31, 2003 Reserves

	Oil (MSTB)	Gas (MMCF)	NGL (MBBLS)	MBOE (6:1)
Gross Proven Producing	795	15,428	175	3,542
Gross Proven Non-producing	227	2,049	21	589
Total Proven	1,022	17,477	196	4,131
Total Proved Plus Probable	1,750	24,690	294	6,159

Value of Reserves (10% discounted cash flow, $000's)	**2004**
Total Proven and Probable	**69,977**
Total Proven	**55,192**

The above reserves table and values are from a Gilbert Lausten Jung Associates Ltd. evaluation of the Corporation's Western Canadian properties, effective December 31, 2003. Gross reserves refers to the total working interest share of remaining recoverable reserves owned by Canadian Superior before deduction of royalties payable to others.

PRICING ASSUMPTIONS
Per Gilbert Lausten Jung Associates Ltd. April 1, 2004 pricing.

	WTI (1) ($US/STB)	Oil Price (2) $Cdn/STB	AECO Spot Gas (3) ($/MMBTU)	NGL Propane ($/BBL)	NGL Butane ($BBL)	NGL Pentanes ($BBL)
Current Year Forecast						
2004	34.25	44.75	6.65	33.75	36.75	45.25
Future Forecast(4)						
2005	29.00	37.75	5.55	25.75	28.75	38.25
2006	27.00	35.25	5.20	23.25	25.25	35.75
2007	25.00	32.50	5.00	20.50	22.50	33.00
2008	25.00	32.50	5.00	20.50	22.50	33.00

(1) West Texas Intermediate quality (D2/S2) crude landed in Cushing, Oklahoma.
(2) Equivalent price for Light Sweet Crude (40 API/0.3% S) landed in Edmonton, Alberta after exchange of 0.750 $US/$Cdn.
(3) Price paid at AECO delivery point.
(4) An escalation of 1.5% per year is included in the forecasts after 2004.

UNDEVELOPED LANDS

During 2003 the Company continued to expand its Western Canadian undeveloped land holdings as well as its holdings Offshore Nova Scotia. In addition, a significant acreage holding (55,000 acres) was added through the Trinidad joint venture announced in October of 2003.

In Western Canada a major portion of the 19,944 acres added in 2003 was concentrated in the Drumheller area. Our undeveloped land acreage at the end of 2003 was approximately 174,228 gross acres (147,533 net acres) with an average working interest of 85%. Our Drumheller area acreage covers 87,677 gross acres (72,812 net acres).

We intend to continue to actively add to our Western Canadian undeveloped land holdings, with a particular focus on the Drumheller area, to support active drilling initiatives targeting new production and reserves growth.

Offshore Nova Scotia Canadian Superior holds a significant land position with interests in 1,293,946 acres in six exploration licences. In 2003, 370,881 acres were added through the acquisition of two Exploration Licences, now referred to as the "Marauder" and "Marconi" prospects. These new licences are located close to significant Sable Island area discoveries. It should be noted that the drilling of the "Mariner" I-85 well commenced late in 2003 and ended late in the first quarter of 2004. Upon satisfaction of all conditions, El Paso is entitled to earn a 50% working interest, to the depth drilled, on our 101,835 acre "Mariner Project" lands. Canadian Superior continues to hold a 100% interest in the deeper rights on both the "Marquis" and the "Mariner" Blocks and a 100% interest in the "Mayflower", "Marauder" and "Marconi" prospect lands.

The following table sets out the Company's Western Canadian undeveloped land holdings as at December 31, 2003:

Undeveloped lands	Gross Acres (1)	Net Acres (2)	Average Working Interest
Alberta	157,021	133,543	85%
Saskatchewan	3,993	3,993	100%
British Columbia	13,214	9,997	76%
Total	174,228	147,533	85%

(1) "Gross" refers to the total acres in which the Company has or may earn an interest.
(2) "Net" refers to the total acres in which the Company has an interest or may earn an interest, multiplied by the percentage working interest therein owned or to be owned by the Company.

The Offshore Nova Scotia acreage has been independently appraised by McDaniel & Associates Consultants Ltd., effective December 31, 2003, at $94.3 million fair market value.

ENVIRONMENTAL RESPONSIBILITY

Canadian Superior conducts its operations in Canada in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. The Company is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making expenditures of both a capital and expense nature to ensure full compliance with laws relating to protection of the environment. The Company anticipates spending sufficient funds on environmental expenditures in 2004 in order to comply in all material respects with all environmental requirements related to its field operations. The Company does not anticipate that such expenditures, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. The Company will maintain insurance coverage where available, and financially desirable, in light of risk versus cost factors.

JOINT VENTURES AND FARM-OUTS

Canadian Superior has a general policy of acquiring and operating 100% of its Western Canadian properties wherever possible. However, in 2003 the Company continued to enter into joint venture and farm-out agreements in relation to interests generally located in non-core areas and on expiring leases. In relation to our Offshore Nova Scotia operations, project capital costs and risk profiles clearly warrant risk management through the formation of joint ventures. For our Offshore Nova Scotia opportunities, it continues to be our firm ongoing intention to minimize our own financial outlay requirements wherever possible through promoted farm-out and joint venture transactions. We do not believe it is in the best interest of our shareholders to compromise our balance sheet by over-extending ourselves even where the potential rewards are very large. By using our disciplined approach to defining value in high impact prospects, we will endeavor to ensure that we continue to realize a high level of value in any joint ventures we enter into with partners.

HUMAN RESOURCES

Canadian Superior continued to add to its East Coast staff and to its Western Canadian exploration and operational staff during 2003. The Company currently has a total of 42 full-time staff, including 5 staff members in the Halifax office and 6 staff members in the Drumheller offices. Expert consultants continue to be retained on an as required basis.

Canadian Superior testing Northwest Alberta gas well

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and Auditors' Report included in this Annual Report. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada. The following discussion and analysis refers primarily to 2003 compared with 2002 unless otherwise indicated. The calculation of barrels of oil equivalent ("boe") is based on a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Management's Discussion and Analysis contains the term "cash flow from operations", which is determined before changes in non-cash working capital and should not be considered an alternative to, or more meaningful than, "cash flow from operating activities" as determined in accordance with generally accepted accounting principles ("GAAP"). Canadian Superior's determination of cash flow from operations may not be comparable to that reported by other corporations. A reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the audited financial statements. The Corporation also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding in a manner consistent with the calculation of earnings per share.

The MD&A as well as other sections within this Annual Report, contain forward-looking or outlook information regarding the Corporation. Because forward-looking information addresses future events and conditions, it involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking or outlook information. These risks and uncertainties include, but are not limited to: commodity price levels; production levels; the recoverability of reserves; transportation availability and costs; operating and other costs; interest rates and currency exchanges rates; and changes in environmental and other legislation and regulations.

One of the major accomplishments of the Corporation during the past year was the closing of the Drumheller property acquisition on March 20, 2003. This strategic acquisition provided Canadian Superior with a significant, stable core operating base and dramatically increased the Corporation's production and cash flow. The Drumheller transaction had an unadjusted purchase price of approximately $65.0 million and an effective date of October 1, 2002. In accordance with Canadian generally accepted accounting principles, the properties' net cash flows from the effective date to the date of closing, approximately $11.5 million, were treated as purchase price adjustments and deducted from the gross acquisition costs. This resulted in the Corporation recording net acquisition costs of approximately $53.5 million. Additional capitalized transaction costs of $0.7 million were also incurred. Only revenues, expenses and production volumes related to production volumes of the properties from March 21, 2003 forward were recorded on the statement of earnings of the Corporation in the 2003 annual report.

The following table sets forth selected financial information of the Corporation for the periods indicated:

Years ended December 31 ($000's except per share amounts)	**2003**	2002	2001
Oil and gas revenue net of royalties	$ **25,568**	$ 6,007	$ 4,078
Cash flow from operations	**13,347**	799	1,729
Per Share – basic	**0.16**	0.01	0.04
Per Share – diluted	**0.15**	0.01	0.04
Net earnings (loss)	**(312)**	(28,173)	8,109
Per Share – basis	**(0.00)**	0.51)	0.20
Per Share – diluted	**(0.00)**	(0.51)	0.19
Total assets	**139,952**	49,956	68,588
Net debt (surplus) including working capital	**3,744**	5,484	(1,203)

PRODUCTION, PRICING AND REVENUE

Years Ended December 31

Natural Gas	**2003**	2002	% change
Average Daily Production (mcf/d)	**10,210**	4,725	116
Average Sales Price ($/mcf)	$ **6.60**	$ 4.04	63
Natural Gas Revenue ($000's)	$ **24,589**	$ 6,968	253

Oil & NGLs			
Average Daily Production (bbl/d)	**583**	59	888
Average Sales Price ($/bbl)	$ **33.03**	$ 35.69	(7)
Oil & NGLs Revenue ($000's)	$ **7,029**	$ 769	814

Barrels of Oil Equivalent (6:1)			
Average Daily Production (boe/d)	**2,285**	846	170
Average Sales Price ($/boe)	**$ 37.92**	$ 25.07	51
Total Oil and Gas Revenue ($000's)	**$ 31,618**	$ 7,741	308

Average daily production for 2003 increased to 2,285 boe/d, up 170 percent from 846 boe/d in 2002. The increase in production during 2003 is largely attributable to the Drumheller property acquisition, which closed on March 20, 2003.

Oil and gas revenue increased 308 percent to $31.6 million in 2003, as compared to $7.7 million in 2002. This revenue increase is due to both higher production levels and higher average price realizations achieved during 2003. The average realized sales price in 2003 was $37.92/boe ($6.60/mcf for natural gas and $33.03/bbl for oil and NGLs) up 51 percent from $25.07/boe in 2002 ($4.04/mcf for natural gas and $35.69/bbl for oil and NGLs).

While the Corporation sells all its production within Canada, and receives its production payments in Canadian dollars, the Canadian dollar prices for oil, NGLs and natural gas are strongly referenced to US commodity prices. During 2003, the Canadian dollar increased approximately 20 percent versus the US dollar, resulting in the Corporation's realized Canadian dollar denominated sales prices showing lower increases than the US dollar reference prices.

HEDGING

The Corporation enters into commodity sales agreements and certain derivative financial instruments to reduce its exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes to protect the Corporation against negative commodity price movements and are not used for trading or other speculative purposes. After acquiring the Drumheller property in March 2003, the Corporation entered into agreements to hedge approximately 40 percent of its 2003 production. These 2003 activities resulted in income of $269,000 which was recorded as increased oil and gas revenues during the period.

The Corporation has the following contracts in place relating to 2004:

Contract	Volume	Price	Term
Natural Gas			
Fixed Price	1,000 gj/d	$5.68/gj (Aeco)	January 1 - January 31, 2004
Fixed Price	2,000 gj/d	$6.53/gj (Aeco)	January 1 – March 31, 2004
Fixed Price	2,000 gj/d	$5.95/gj (Aeco)	March 1 – March 31, 2004
Fixed Price	2,000 gj/d	$6.14/gj (Aeco)	April 1 – October 31, 2004
Crude Oil			
Fixed Price	275 bbl/d	$35.75 CAD/bbl WTI	January 1 – May 31, 2004

ROYALTIES

Years ended December 31 ($000's)	2003	2002	% change
Crown	**$ 5,219**	$ 1,949	168
Freehold and overriding	**1,248**	85	1368
Total royalties	**6,467**	2,034	218
Alberta Royalty Tax Credit	**(417)**	(300)	39
Net royalties	**$ 6,050**	$ 1,734	249
Per boe	**$ 7.26**	$ 5.61	29
Percent of total revenue	**19%**	22%	n/a

Royalties, net of royalty credit, totaled $6.0 million in 2003, up 249 percent from $1.7 million in 2002. The increase in royalty expense is due to a 170 percent increase in average daily production rates and a 51 percent increase in realized prices in 2003. The average royalty rate, as a percentage of revenue, fell to 19 percent in 2003, down from 22 percent in 2002.

PRODUCTION AND OPERATING EXPENSES

	2003				Year	
	Q1	Q2	Q3	Q4	2003	2002
Production and Operating Expenses ($000's)	724	1,989	1,771	1,508	5,992	2,542
Per boe ($)	8.65	7.89	7.02	6.16	7.19	8.23

Production and operating expenses increased to $6.0 million for 2003, up 136 percent from $2.5 million reported in 2002, as a result of a significant increase in the Corporation's production during 2003. Measured on a boe basis, 2003 production and operating expenses fell to $7.19/boe, down 13 percent from $8.23/boe in 2002. Drumheller area production has significantly reduced the Corporation's per barrel production and operating expenses. The Corporation's Northern access properties generally have higher operating costs per boe compared to the Drumheller area. Production and operating expenses consistently fell throughout 2003 as our field team worked diligently to implement operations efficiencies. Fourth quarter of 2003 production and operating expenses averaged $6.16/boe, down 29 percent from the first quarter average cost of $8.65/boe.

GENERAL AND ADMINISTRATIVE EXPENSES

Years ended December 31 ($000's)	2003	2002	% change
Gross G&A Expenses	$ 9,172	$ 6,328	45
Recoveries	(260)	(250)	n/a
Capitalized	(4,063)	(3,180)	n/a
Net G&A	$ 4,849	$ 2,898	67
Per boe	$ 5.82	$ 9.39	(38)

Net G&A expenses increased to $4.8 million in 2003, up from $2.9 million in 2002. This increase can be attributed to increased staffing and associated expenses to support the Corporation's increased operations base and activities, as well as to a one-time contractual payment made to an officer and director of the Corporation. On a unit of production basis, G&A expenses fell 38 percent to $5.82/boe for 2003. The Corporation capitalized $4.1 million of overhead related to exploration and development, representing 44 percent of gross G&A costs.

INTEREST EXPENSE

During 2003 the Corporation paid $1.5 million in interest on its revolving production loan facility, which at year end had a drawn balance of $12.55 million. Only $158,000 of interest expenses were incurred in 2002 due to the relatively small size of the facility draws in that year.

INTEREST INCOME

Interest income of $364,000 was earned by the Corporation in 2003 on its Offshore Nova Scotia licence term deposits. Interest income was marginally higher in 2002 because of higher interest rates in that year.

DEPLETION AND AMORTIZATION

Depletion and amortization expense for 2003 totaled $13.3 million in 2003 up from $5.6 million in 2002. This increase principally relates to the 170 percent increase in production resulting from the Drumheller acquisition. 2003 depletion and amortization expenses averaged $15.91/boe. 2004 depletion and amortization expenses are expected to average approximately $20.00/boe as a result of negative reserve revisions to the Corporation's non-Drumheller area properties in the January 1, 2004 independent reserve evaluation.

FUTURE SITE RESTORATION

The Corporation accrues a provision for future site restoration based on its existing number of wells and production facilities. The provision was $1.2 million in 2003 and $0.3 million in 2002. The rise reflects both higher 2003 production and the increased well count resulting from the Drumheller acquisition.

TAXES

The Corporation recorded current taxes only in respect of the federal Large Corporations Tax. The Large Corporations Tax is based on the Corporation's year-end book value, and was $288,000 in 2003. As a result of the loss from operations of $1.2 million reported in 2003, a reduction in future income taxes of $828,000 was recorded. The Corporation does not expect to be cash taxable in 2004.

CAPITAL EXPENDITURES

Years ended December 31 ($000's)	2003	2002	% change
Acquisition	$ 54,160	$ 0	100
Exploration & Development	17,801	35,535	(50)
Plants & Facilities & Pipelines	2,787	11,130	(75)
Land & Lease	1,325	4,962	(73)
Seismic	3,859	217	1678
Capitalized Expenses	4,063	3,181	28
	$ 83,995	$ 55,025	53

The Corporation incurred $84.0 million of capital expenditures in 2003, including $54.2 million on the Drumheller acquisition in the first quarter of the year. Exploration and development expenses include the costs of drilling 13 wells at Drumheller in the second half of 2003 and two East Ladyfern wells in the first quarter of 2003. Exploration and development expenses also include approximately $5.5 million for the Corporation's share of the Mariner I-85 well costs incurred to December 31, 2003. It is anticipated that the Corporation incurred approximately $8.5 million of additional expenditures on this well in the first quarter of 2004, subject to final adjustments with the operator.

CEILING TEST

The Corporation has adopted CICA Accounting Guideline 16 "Oil and Gas Accounting – Full Cost" effective for its fourth quarter 2003. This guideline limits the carrying value of oil and gas properties to their fair value in a ceiling test calculation which must be performed at least annually. The fair value is estimated to be the future cash flow from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate. No write-down of oil and gas assets was required for 2003, under this guideline.

NET INCOME AND CASH FLOW FROM OPERATIONS

	($000's)			($ per boe)		
Years ended December 31	2003	2002	% change	2003	2002	% change
Revenue	$ 31,618	$ 7,741	308	$ 37.92	$ 25.07	51
Royalties, net of ARTC	6,050	1,734	249	7.26	5.61	29
Production and operating expenses	5,992	2,542	136	7.19	8.23	(13)
Operating Netback	19,576	3,465	465	23.47	11.23	109
General and administrative expenses	4,849	2,898	67	5.82	9.39	(38)
Net interest expense (income)	1,092	(296)	n/a	1.31	(0.96)	n/a
Large Corporations Tax	288	64	350	0.34	0.21	62
Cash Flow from Operations	13,347	799	1,570	16.00	2.59	518
Depletion and amortization	13,264	5,599	137	15.91	18.13	(12)
Future site restoration	1,223	295	315	1.46	0.96	52
Write down of oil and gas assets	--	43,000	n/a	--	139.25	n/a
Future income tax recovery	(828)	(19,922)	n/a	(1.00)	(64.52)	n/a
Net Loss	$ (312)	$ (28,173)	n/a	$ (0.37)	$ (91.23)	n/a

The Corporation recorded a net loss of $0.3 million, or $(0.00)/share, for 2003, as compared to a loss of $28.2 million $(0.51)/ share, in 2002. The principal reason for the large loss in 2002 was the $24.7 million after tax ceiling test write down in that year.

Cash flow from operations increased nearly sixteen-fold to $13.3 million in 2003, from $0.8 million in 2002. The Drumheller acquisition, providing substantial production increases to the Corporation, was the primary contributor to the large cash flow increase in 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's current $28.0 million revolving production loan facility expires on May 31, 2004. At December 31, 2003, $12.55 million was drawn on this facility. As at April 30, 2004, approximately $9.7 million is outstanding on this facility, and the Corporation has approximately $18.0 million in cash deposits available for corporate purposes. In addition to the $18.0 million of available cash currently on hand, the Corporation has $13.8 million of term deposits posted as security against its remaining Offshore Nova Scotia work expenditure bids.

At December 31, 2003, the Corporation had $13.8 million ($12.0 million - 2002) in interest bearing term deposits posted as security against work expenditure bids. The security deposits are released to the Corporation on a basis proportionate to 25 percent of expenditures incurred. It is the Corporation's intention to secure a joint venture partner for its deepwater "Mayflower" block which, if successful, will release up to $10.3 million in secured term deposits assigned to this block.

The Corporation's 2004 Western Canadian exploration and development expenditures are expected to be primarily funded from operating cash flow. If additional cash is required to fund planned 2004 capital programs, in particular programs Offshore Nova Scotia and Offshore Trinidad, it may be sourced from equity financings or, in the case of Offshore Nova Scotia activities, from potential releases of secured term deposits as additional work expenditures are incurred. The Corporation may also elect to farm-out portions of its Offshore Nova Scotia acreage, or enter into other arrangements with third partied, thereby reducing capital required from the Corporation to fund these prospects.

CONTRACTUAL OBLIGATIONS

In the normal course of business, Canadian Superior is obligated to make future contractual payments. These obligations represent contracts and other commitments that are known and non-cancellable.

	Payments due by Period			
Payments due by period ($000's)	2004 - 2006	2007 - 2008	Thereafter	Total
Office Leases	$ 2,719	$ 1,697	$ 205	$ 4,621
Operating Leases	408	136	8	552
Flow-through share renunciation obligations	11,000	-	-	11,000
Firm service transportation	329	8	-	337

BUSINESS RISKS

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational and financial risks, many of which are outside of Canadian Superior's control. More specifically these include risks of economically finding reserves and producing oil and gas in commercial quantities, marketing the production, commodity prices and interest rate fluctuations and environmental and safety risks. In order to mitigate these risks, the Corporation has an experienced base of qualified personnel, both technical and financial, and maintains an insurance program that is consistent with industry standards.

At December 31, 2003, the Corporation had $13.8 million of term deposits posted as security against its remaining Offshore Nova Scotia work expenditure bids. To the extent that expenditures are not incurred within the periods allowed, the Corporation would forfeit its proportionate share of any remaining deposits relating to the unexpended work commitment.

The Corporation's existing production loan facility expires on May 31, 2004. The Corporation has sufficient cash on hand to fully pay out the current drawn balance.

SIGNIFICANT ACCOUNTING POLICIES

Use of estimates
The amounts recorded for depletion and amortization of oil and gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved and probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions. These estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Stock-based compensation plans
The Corporation will be adopting the application of the new accounting policy for stock-based compensation (CICA Section 3870) as of January 1, 2004, with retroactive effect to January 1, 2002. This section requires all stock options granted to employees, directors or consultants of the Corporation to be fair valued and recorded as a compensation expense when granted.

Asset retirement obligations
The Corporation will be adopting the retroactive application of the new accounting policy for asset retirement obligations (CICA Section 3110) as of January 1, 2004. All existing reclamation and abandonment liabilities will be reversed and the new standard will be set up with prior years being restated. The obligation will be measured and recorded at fair value and the corresponding oil and gas assets will be increased. The capitalized cost will be amortized to depletion expense over the useful life of the asset. The liability will be adjusted over time with a corresponding accretion expense until the obligations are settled. This is not expected to have a significant impact on the Corporation's earnings.

Continuous disclosure obligations
Effective March 31, 2004, the Corporation and all reporting issuers in Canada will be subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations". This new instrument is effective for fiscal years beginning on or after January 1, 2004. The instrument proposes shorter reporting periods for filing of annual and interim financial statements, MD&A and the Annual Information Form ("AIF"). The instrument also proposes enhanced disclosure in the annual and interim financial statements, MD&A and AIFs. Under this new instrument, it will no longer be mandatory for the Corporation to mail annual and interim financial statements and MD&A to Shareholders, but rather these documents will be provided on an "as requested" basis. It is Canadian Superior's intention to make these documents available on the Corporation's website on a continuous basis.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in Canada is the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal controls, which are designed to provide reasonable assurance those assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has reported to the Board of Directors which has approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by Canadian Superior Energy Inc.'s shareholders. The auditors have considered, for the purposes of determining the nature, timing and extent of their audit procedures, the Corporation's internal controls and have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the presentation of the financial statements in accordance with Canadian generally accepted accounting principles.

Greg S. Noval
President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Canadian Superior Energy Inc. as at December 31, 2003 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2002 were reported on by another firm of chartered accountants who expressed an unqualified opinion in their auditors' report dated April 30, 2003.

KPMG LLP

CALGARY, CANADA
May 10, 2004

KPMG LLP

(Thousands of dollars)

Assets		2003		2002
Current assets				
Cash and short-term investments	$	9,328	$	--
Nova Scotia offshore drilling security deposit (Note 3)		10,000		--
Accounts receivable		3,540		4,254
Prepaid expenses		568		1,724
		23,436		5,978
Nova Scotia offshore term deposits (Note 4)		13,839		12,032
Oil and gas assets (Note 5)		102,677		31,946
	$	139,952	$	49,956
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	14,630	$	6,312
Revolving production loan (Note 6)		12,550		5,150
		27,180		11,462
Provision for future site restoration		1,634		411
Future income taxes (Note 9)		9,046		5,213
		37,860		17,086
Shareholders' Equity				
Share capital (Note 7)		102,404		49,927
Deficit		(312)		(17,057)
		102,092		32,870
Contingencies and commitments (Note 11)				
Subsequent events (Note 12)				
	$	139,952	$	49,956

See accompanying notes to consolidated financial statements

Approved by the Board

Greg S. Noval
Director

Leigh Bilton
Director

(Thousands of dollars except per share amounts)

		2003		2002
Revenue				
Oil and gas	$	**31,618**	$	7,741
Royalties, net of royalty credit		**(6,050)**		(1,734)
		25,568		6,007
Expenses				
General and administrative		**4,849**		2,898
Production and operating		**5,992**		2,542
Interest		**1,456**		158
Depletion and amortization		**13,264**		5,599
Future site restoration		**1,223**		295
Write down of oil and gas assets (Note 5)		**--**		43,000
		26,784		54,492
Loss from operations		**(1,216)**		(48,485)
Interest income		**364**		454
Loss before income taxes		**(852)**		(48,031)
Income taxes				
Capital		**288**		64
Future (reduction) (Note 9)		**(828)**		(19,922)
		(540)		(19,858)
Net loss		**(312)**		(28,173)
Retained earnings (deficit), beginning of year		**(17,057)**		11,116
Reduction of Stated Capital (Note 7(f))		**17,057**		--
Deficit, end of year	$	**(312)**	$	(17,057)
Loss per share	$	**(0.00)**	$	(0.51)
Diluted loss per share	$	**(0.00)**	$	(0.51)

See accompanying notes to consolidated financial statements

(Thousands of dollars)

		2003		2002
Cash provided by (used in) :				
OPERATIONS				
Net loss	$	**(312)**	$	(28,173)
Items not involving cash for operations				
Depletion and amortization		**13,264**		5,599
Future site restoration		**1,223**		295
Write down of oil and gas assets		**--**		43,000
Future income tax reduction		**(828)**		(19,922)
Cash flow from operations		**13,347**		799
Net change in non-cash working capital		**(4,892)**		(3,284)
		8,455		(2,485)
FINANCING				
Issue of shares		**74,195**		28,457
Redemption (purchase) of Nova Scotia offshore term deposits		**(1,807)**		9,083
Revolving production loan advances		**7,400**		5,150
		79,788		42,690
INVESTING				
Acquisition of oil and gas assets		**(54,160)**		--
Exploration and development expenditures		**(29,835)**		(55,025)
Prospect commitment fee (Note 11(d))		**--**		10,000
		(83,995)		(45,025)
Net change in non-cash working capital		**5,080**		(3,370)
		(78,915)		(48,395)
Increase (decrease) in cash and short term investments		**9,328**		(8,190)
Cash and short-term investments, beginning of year		**--**		8,190
Cash and short-term investments, end of year	**$**	**9,328**	$	--

See accompanying notes to consolidated financial statements

Note 1 - Accounting Policies

a) Principles of consolidation - The consolidated financial statements include the accounts of the Corporation and the accounts of its wholly-owned subsidiaries.

b) Cash and short-term investments - Cash and short-term investments consists of balances with banks and investments in highly liquid short-term deposits with a maturity date of less than ninety days.

c) Depletion and Amortization – Canadian Superior Energy Inc. is engaged in the acquisition, exploration, development and production of oil and gas in Canada. The Corporation follows the full-cost method of accounting for oil and gas operations whereby all costs relating to the acquisition of, exploration for, and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, costs of production equipment and overhead charges related to acquisition, exploration and development activities.
The costs are amortized using the unit-of-production method based upon the estimated proved oil and gas reserves, before royalties, as determined by the Corporation's independent engineers. Oil and gas reserves and production are converted into equivalent units based upon relative energy content.
Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The Corporation has adopted CICA Accounting Guideline 16 ("AcG-16"), "Oil and Gas Accounting - Full Cost" effective for its fourth quarter of 2003. This new guideline changes how the "ceiling test" calculation is performed. Under the new guideline, the Corporation performs a ceiling test for each cost center in a two-stage test performed at least annually:

i) Impairment is recognized if the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties exceeds the estimated future cash flows from proved oil and gas reserves, on an undiscounted basis, using forecast prices and costs. Future cash flows are calculated before interest, general and administrative expenses and income taxes.
ii) If impairment is indicated by applying the calculations described in i) above, the Corporation will measure the amount of the impairment by comparing the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties to the estimated future cash flows from the proved and probable oil and gas reserves, discounted at the Corporation's credit-adjusted risk-free rate of interest, using forecast prices and costs.

Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded.
Amortization of other equipment is provided on a diminishing balance basis at rates ranging from 20% to 100% per annum. Gains and losses from disposals are included in income.

d) Future site restoration costs - Estimated future site restoration costs for oil and gas assets are provided for over the life of the proved reserves on a unit of production basis. Costs are based on the Corporation's engineering estimates considering current regulations, costs, technology and industry standards. Actual site restoration expenditures are deducted from the iiability as incurred.

e) Joint Ventures - The Corporation's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Corporation's proportionate interest in such activities.

f) Income Taxes - The Corporation follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

g) Revenue recognition - Revenue from the sale of oil and gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(Tabular amounts in thousands except per share amounts)

h) Flow-through shares - The Corporation, from time to time, issues flow-through shares to finance a portion to its oil and gas exploration activities. The exploration and development expenditures funded by flow-through shares are renounced to subscribers in accordance with the Income Tax Act (Canada). The estimated value of the tax pools foregone is reflected as a reduction in share capital with a corresponding increase in the future income tax liability.

i) Stock-based compensation - The Corporation uses the intrinsic value-based method of accounting for its stock option plan (note 7(e)), whereby no compensation expense is recorded for stock options granted to directors, officers and employees. The Corporation discloses the pro forma results of using the fair value method, under which compensation expense is recorded based on the estimated fair value of the options as determined at the date of grant. The pro forma results reflect only the effect of options granted subsequent to January 1, 2002.
Any consideration received on exercise of stock options is credited to share capital.

j) Measurement Uncertainty - The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

k) Per Share Amounts – The Corporation follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

Note 2 - Change in Policy

As described in Note 1(c), The Corporation has adopted CICA Accounting Guideline 16 ("AcG-16"), "Oil and Gas Accounting - Full Cost" effective for its fourth quarter of 2003. This new guideline changes how the "ceiling test" calculation is performed. Under the new guideline, the Corporation performs a ceiling test for each cost center in a two-stage test performed at least annually.

The new guideline differs from the previous method of calculating the ceiling test, where a cost center was evaluated on a recoverability basis only, using year-end prices and costs and discounting techniques were not employed.

The benchmark prices, on which the ceiling test is based, are as follows:

	Oil Edmonton Par ($/Bbl)	Natural Gas AECO ($/mcf)
2004	44.75	6.65
2005	37.75	5.55
2006	35.25	5.20
2007	32.50	5.00
2008	32.50	5.00
2009	32.50	5.00

Benchmark prices increase at a rate of 1.5% per year for both oil and natural gas after 2009. Adjustments were made to the benchmark prices above, for purposes of the ceiling test, to reflect forward contracts the Corporation has in place, varied delivery points and quality differentials in the products delivered.

Had the Corporation not adopted the new guideline, AcG-16, effective for it's fourth quarter of 2003, it would have recorded a write down of oil and gas assets of $15.5 million after tax.

Note 3 – Nova Scotia Offshore Drilling Security Deposit

Under the terms of the Mariner I-85 exploration drilling program, the Corporation had a $10,000,000 drilling security deposit posted with the Canada - Nova Scotia Offshore Petroleum Board at December 31, 2003. This deposit, with interest, was returned to the Corporation in March 2004.

Note 4 – Nova Scotia Offshore Term Deposits

Under the terms of the licenses referred to in Note 11(a), the Corporation has assigned term deposits totaling $13,839,000 (2002 - $12,032,000). Accordingly, this amount has been classified as a non-current asset.

(Tabular amounts in thousands except per share amounts)

Note 5 – Oil and Gas Assets

	2003			2002
	Cost	Accumulated Depletion and Amortization	Net	Net
Oil and gas assets	$ 124,824	$ 22,311	$ 102,513	$ 31,783
Other equipment	573	409	164	163
	$ 125,397	$ 22,720	$ 102,677	$ 31,946

Future development costs related to proven undeveloped reserves of $3,453,000 (2002 - $1,288,000) have been included in the depletion base calculation at December 31, 2003.

At December 31, 2003, the Corporation has excluded $27,281,000 (2002 - $9,200,000) of oil and gas properties relating to unproved properties from costs subject to depletion. General and administrative expenses totaling $4,063,000 (2002 - $3,180,000), of which $390,000 (2002 - $770,000) pertained to the Nova Scotia project, that were directly related to exploration and development activities have been capitalized for the year ended December 31, 2003.

The application of the ceiling test in 2002 resulted in a $43.0 million pre-tax reduction ($24.7 million after tax) in the carrying value of the Corporation's oil and gas assets.

At December 31, 2003 the estimated future site restoration costs to be accrued over the remaining life of proven reserves were $8,501,000 (2002 - $1,589,000).

Note 6 – Revolving Production Loan

At December 31, 2003 the Corporation had a demand revolving production loan facility (the "facility") with a Canadian chartered bank of $28,000,000 of which it had drawn $12,550,000. The facility bears interest at prime plus 0.75% on the first $22.5 million of the facility and prime plus 1.0% on the excess. The facility is secured by a $50 million first floating charge demand debenture on the assets of the Corporation and a general security agreement covering all of the assets of the Corporation. The facility expires May 31, 2004, unless renewed.

As at April 30, 2004, the facility had a drawn balance of $9.7 million.

Note 7 - Share Capital

a) Authorized:
Unlimited number of common shares
Unlimited number of preferred shares

b) Voting common shares issued:

	Number	Amount
Balance, as at January 1, 2002	40,313	$ 20,947
Issued upon conversion of special warrants	10,107	10,834
Issued upon exercise of stock options	517	493
Issued for cash	1,353	3,790
Issued for cash on flow-through shares	12,812	26,105
Tax benefits renounced on flow-through shares	--	(11,095)
Issue costs, net of future tax reduction of $783	--	(1,060)
Repurchased under Normal Course Issuer Bid	(70)	(87)
Balance, as at December 31, 2002	65,032	49,927
Reduction of stated capital	-	(17,057)
Issued for cash	22,440	35,000
Issued upon exercise of stock options	1,625	1,601
Issued upon exercise of warrants	1,206	2,412
Issued for cash on flow-through shares	5,798	17,765
Tax benefits renounced on flow-through shares	--	(6,396)
Issue costs, net of future tax reduction of $1,915	--	(3,157)
Balance, as at December 31, 2003	96,101	$ 80,095

(Tabular amounts in thousands except per share amounts)

c) Special warrants issued:

	Number		Amount
Balance, January 1, 2003	--	$	--
Issued for cash:			
Flow-through special warrants	143		500
Tax benefits renounced on flow-through special warrants	--		(180)
Special warrants	7,225		21,989
Balance, December 31, 2003	7,368	$	22,309

On February 6, 2004 the Corporation filed a short form prospectus qualifying the distribution of: (a) 7,400,180 common shares and 2,466,726 common share purchase warrants upon the exercise of the 7,225,180 special warrants issued on December 16th and 24th, 2003 (as above) and an additional 175,000 special warrants issued on January 12, 2004 and (b) 142,857 flow-through common shares upon the exercise of 142,857 flow-through special warrants issued on December 31, 2003 (as above).

d) Purchase Warrants issued:

i) On March 20, 2003, the Corporation issued 9.0 million units for gross proceeds of $13.6 million, relating to a best efforts unit offering. Each $1.50 unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase a common share until March 19, 2004 at a price of $2.00 per common share.

The following table summarizes the $2.00 purchase warrant activity :

	Number
Balance, as at December 31, 2002	--
Issued March 20, 2003	4,574
Exercised, total as at December 31, 2003	(1,206)
Outstanding, as at December 31, 2003	3,368
Exercised January 1 - March 19, 2004	(3,002)
Unexercised, and expired as of March 20, 2004	(366)
Outstanding, as at March 20, 2004	0

ii) As described in Note 7(c) in February 2004, the Corporation filed a short form prospectus qualifying the distribution of 2,466,726 common share purchase warrants.

The following table summarizes this $3.20 purchase warrant activity:

	Number
Balance, as at December 31, 2003, upon short form prospectus filing	--
Issued February 6, 2004	2,467
Exercised, total as at March 31, 2004	(484)
Expired on March 31, 2004 (insiders of Corporation)	(33)
Outstanding, as at April 1, 2004 and expiring December 31, 2004	1,950

e) Stock options:

The Corporation has a stock option plan for its directors, officers, employees and key consultants. The exercise price for stock options granted is no less than the quoted market price on the grant date. An option's maximum term is ten years.

	2003		2002	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
Balance, beginning of year	5,841	$ 1.12	4,020	$ 0.92
Forfeited	(188)	1.35	(356)	1.14
Exercised	(1,625)	0.99	(517)	0.95
Granted	1,105	1.73	2,694	1.39
Balance, end of year	5,133	$ 1.29	5,841	$ 1.12

(Tabular amounts in thousands except per share amounts)

The following table summarizes information about the stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options	Weighted Average of Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.80-0.82	1,563	2.9	$0.82	1,523	$0.82
1.10-1.49	1,721	8.8	1.19	811	1.14
1.50-1.60	1,229	8.1	1.54	661	1.56
1.61-3.00	620	9.4	2.21	45	2.89
$0.80-3.00	5,133	6.9	$1.29	3,040	$1.09

The Corporation uses the intrinsic value method to account for its stock-based compensation plan. Under this method, no compensation costs are recorded in the financial statements for stock options granted to employees and directors. If the fair value method had been used, the Corporation's stock-based compensation costs, pro forma net loss and pro forma net loss per share for the year ended December 31, 2003 would be as follows:

Compensation Costs	$ 771
Net loss	
As reported	(312)
Pro forma	(1,083)
Net loss per common share	
Basic	
As reported	(0.00)
Pro forma	(0.01)
Diluted	
As reported	(0.00)
Pro forma	(0.01)

A modified Black-Scholes option pricing model, with the following weighted average assumptions for the year ended December 31, 2003, was used to estimate the fair value of options on the date of the grant:

Risk free interest rate (%)	4.0
Expected lives (years)	5.0
Expected volatility (%)	65
Dividend per share	0.00

The grant date weighted average fair value of options issued during 2003 was $1.07 per option.

f) On June 27, 2003, at the Corporation's Annual Meeting of Shareholders, a special resolution was approved authorizing a reduction in the stated capital account for the common shares of the Corporation of $17,057,000, being the Corporation's deficit as at December 31, 2002.

g) During 2002, pursuant to a normal course issuer bid, the Corporation repurchased for cancellation 69,700 common shares at a purchase price of $87,000.

h) During the year ended December 31, 2003, the Corporation entered into flow-through share agreements to issue 5,941,000 common shares for cash consideration of $18,265,000 and to renounce $18,265,000 of qualified expenditures.

i) During the year ended December 31, 2002, the Corporation entered into flow-through share agreements to issue 12,812,000 common shares for cash consideration of $26,105,000 and to renounce $26,105,000 of qualified expenditures.

j) Per share amounts - Loss per share was calculated using the weighted average number of common shares outstanding of 85,082,000 for 2003 and 54,730,000 for 2002. The exercise of stock options and warrants would be anti-dilutive in 2003 and 2002.

Note 8 - Related Party Transactions

a) Service Arrangements: During the year ended December 31, 2003, the Corporation paid $912,000 (2002 - $1,209,000) at commercial terms for oilfield equipment rentals to a company controlled by a director and for aircraft rentals at commercial terms to a company controlled by an officer and director of the Corporation. At December 31, 2002, accounts receivable included amounts totaling $1,035,000 for advances to one of the related companies. Pursuant to an officer and

(Tabular amounts in thousands except per share amounts)

director's executive employment contact with the Corporation, dated July 1, 2000, the officer and director assigned to the related company certain obligations to provide services to the Corporation and certain rights to receive remuneration from the Corporation to the related company such that in January 2003 the related company and the Corporation set off amounts of $1.1 million and the contract between the Corporation and the related company was terminated.

b) Share Purchase Loans: At December 31, 2002 accounts receivable included $137,500 for shares purchased by employees. These amounts were repaid in January 2003.

c) Note Payable: In March 2003, the Corporation received $1.5 million from a company controlled by an officer and director of the Corporation. The note was fully repaid by the Corporation in November 2003, including interest in the amount of $99,986.

Note 9 - Income Taxes

The net future income tax liability is comprised of:

		2003		2002
Future Tax Liabilities				
Oil and gas assets in excess of tax values	$	11,791	$	6,428
Future Tax Assets				
Share issue costs		(2,180)		(1,040)
Future removal and site restoration		(565)		(175)
		(2,745)		(1,215)
Net future income tax liability	$	9,046	$	5,213

The following table reconciles income taxes calculated at the Canadian statutory rate of 40.6% (2002 – 42.5%) with actual income taxes:

		2003		2002
Loss before income taxes	$	(852)	$	(48,031)
Combined federal and provincial income tax rate		40.6%		42.5%
Computed income tax reduction		(346)		(20,413)
Increase (decrease) resulting from:				
Non-deductible Crown royalties		1,907		817
Resource allowance		(1,474)		(205)
Alberta Royalty Tax Credit		(152)		(121)
Tax effect of statutory rate change		(763)		--
	$	(828)	$	(19,922)

Note 10 - Risk Management

The carrying values of financial assets and liabilities approximate their fair value due to their demand nature or relatively short periods to maturity.

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

The Corporation is exposed to foreign currency fluctuations as oil and gas prices received are referenced to U.S. dollar denominated prices. The Corporation is exposed to a floating interest rate on its revolving production loan.

The Corporation enters into commodity sales agreements and certain derivative financial instruments to reduce its exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes and are not used for trading or other speculative purposes.

At December 31, 2003, the Corporation had the following contracts in place:

Contract	Volume	Price	Term
Natural Gas			
Fixed Price	2,000 gj/d	$6.53/gj (Aeco)	January 1 - March 31, 2004
Fixed Price	1,000 gj/d	$5.68/gj (Aeco)	January 1 - January 31, 2004
Crude Oil			
Fixed Price	275 bbl/d	$35.75 CAD/bbl WTI	January 1 - May 31, 2004

At December 31, 2003, the estimated fair values of the above financial instruments was a loss of $123,000.

During 2003, the Corporation's hedging activities resulted in an income of $269,000 which was recorded as increased oil and gas revenues during the period.

(Tabular amounts in thousands except per share amounts)

Note 11 - Contingencies and Commitments

a) Nova Scotia: During 2000, 2001 and 2003, the Corporation acquired six exploration licenses from the Canada - Nova Scotia Offshore Petroleum Board. These licenses are for a period of nine years in total, subject to certain requirements being met during the first five years. As a condition of the licenses, the Corporation is required to post security in the amount of 25% of its work expenditure bids. The deposit is refundable only to the extent of approved allowable expenditures. At December 31, 2003, as a result of the Corporation having made certain expenditures, the Corporation had fulfilled its work expenditures on three of the six exploration licenses. The remaining three exploration licenses are currently owned 100 percent by the Corporation and have aggregate work expenditure bids of $55,357,000, and as such the Corporation has $13,839,000 in term deposits assigned to the Canada – Nova Scotia Offshore Petroleum Board.

b) Flow-through Expenditures: At December 31, 2003, the Corporation had yet to incur approximately $11.0 million of Canadian exploration expenses which were renounced for tax purposes. These expenses must be incurred by December 31, 2004.

c) Litigation and Claims: The Corporation is involved in various claims and litigation arising in the ordinary course of business. In the opinion of Canadian Superior the various claims and litigations arising there from are not expected to have a material adverse effect on the Corporation's financial position. The Corporation maintains insurance, which in the opinion of the Corporation, is in place to address any unforeseen claims. See also Note 12 (b).

d) Prospect Commitment Fee: During 2002, the Corporation received a $10 million prospect commitment fee related to its "Marquis" Prospect Offshore Nova Scotia. In the event that any natural gas or other hydrocarbons in commercial quantities are produced from a well on the "Marquis" Prospect, the Corporation will be obligated to repay the amount in 12 quarterly installments following commencement of commercial production.

e) Lease Obligations: The Corporation has entered into agreements to lease premises and equipment requiring future minimum payments totaling $5,173,000. Minimum annual payments during the next five fiscal years are as follows:

2004	$	1,097,000
2005	$	1,027,000
2006	$	1,003,000
2007	$	955,000
2008	$	877,000

Note 12 - Subsequent Events

a) Hedging – Subsequent to December 31, 2003 the Corporation entered into the following contracts:

Contract	Volume	Price	Term
Natural Gas			
Fixed Price	2,000 gj/d	$5.95/gj (Aeco)	March 1 - March 31, 2004
Fixed Price	2,000 gj/d	$6.14/gj (Aeco)	April 1 - October 31, 2004

b) A number of class action proceedings have been initiated against Canadian Superior and certain of its directors and officers in the United States District Court, Southern District of New York. The complainants, all of whom are purchasers of securities of Canadian Superior, allege violations by the named defendants of Section 10(b) and Rule 10(b)-5, and Section 20(a) of the *United States Securities and Exchange Act of 1934*, during varied class periods between October 22, 2003 and March 11, 2004. Specifically the complainants allege that the named defendants made materially false and misleading statements to the public with regard to the cost and results of the Company's drilling operations offshore Nova Scotia causing investors to suffer damages. Canadian Superior categorically denies these allegations. Canadian Superior has not been served with any statements of claim in this regard and views these U.S. actions and allegations by U.S. driven plaintiff lawyers to be groundless, frivolous and a misuse of the United States legal system. It is Canadian Superior's opinion that these actions amount to jockeying by various United States legal counsels to determine who, if any, will represent a plaintiff, if one exists, against Canadian Superior. Canadian Superior views these actions as regrettable and Canadian Superior intends to vigorously and aggressively deal with this matter.

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Leigh Bilton
Vice President, Operations
Charles Dallas
Director
Rodney (Rod) D. Erskine
Director
T.J. (Jake) Harp, B.Sc. Pet. Eng., P.Geoph.
Director
Gerald J. Maier
Director
J. Ronald Woods, B.Comm., C.F.A.
Director

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Land Manager
Gerold Fong, B.Sc., Geophysics
Exploration Manager
Jason Bednar, B. Comm., C.A.
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Rachelle Blakney
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Senior Geophysicist
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Wally Pedersen
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Calgary, Alberta & Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
American Stock Exchange
Trading Symbol: SNG

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